31

FINANCIAL STATEMENTS ANALYSIS - AN INTRODUCTION

You have already learnt about the preparation of financial statements i.e. Balance Sheet and Trading and Profit and Loss Account in the module titled 'Financial Statements of Profit and Not for Profit Organisations'. In the case of a company the Trading and Profit & Loss Account is known as Statement of Profit and Loss. After preparation of the financial statements, one may be interested in analysing the financial statements with the help of different tools such as comparative statement, common size statement, ratio analysis, trend analysis, fund flow analysis, cash flow analysis, etc. In this process a meaningful relationship is established between two or more accounting figures for comparison. In this lesson you will learn about analysing the financial statements by using comparative statement, common size statement and trend analysis.

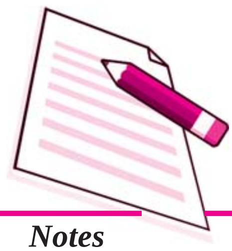
OBJECTIVES

After studying this lesson, you will be able to :

- understand the major and sub-headings of Statement of Profit & Loss and Balance Sheet.
- explain the meaning, need and purpose of financial statement analysis;
- identify the parties interested in analysis of financial statements;
- explain the various techniques and tools of analysis of financial statements.

31.1 FINANCIAL STATEMENTS OF A COMPANY

The way in which the various items of Statement of Profit and Loss and the Balance Sheet should be presented is given in schedule VI part I of the Companies Act 1956. The modified formats of both the Statements are given in Schedule VI part I is as under:



Notes

Form of Statement of Profit and Loss

Statement of Profit and Loss

for the year ended ....

Particulars	*Note No.*	*Figures for the current Reporting Period*	*Figures for the Previous Reporting Period*
I. Revenue from Operations		....	....
II. Other Income		....	....
III. **Total Revenue (I + II)**		....	....
IV. **Expenses**			
Cost of Materials Consumed		....	....
Purchases of Stock-in-Trade		....	....
Change in inventories of Finished Goods, Work-in-Progress and Stock-in-Trade		....	....
Employees Benefit Expenses		....	....
Finance Costs		....	....
Depreciation and Amortisation Expenses		....	....
Other Expenses		....	....
Total Expenses		....	....
V. **Profit before Tax (III - IV)**		....	....
VI. *Less:* Tax		....	....
VII. **Profit or Loss for the Period (V - VI)**		....	....

It will be observed from the prescribed format that a column is prescribed for Note No. It is prescribed for the purpose of cross reference to the Note number in the Notes to Accounts where detail of the line item is given.

Statement of Profit and Loss is a financial statement that shows the performance of the company over a period of time. It shows the net result of the company *i.e.*, profit earned or loss suffered during the accounting period. It shows revenue from operations, other incomes and expenses incurred in a summarized form. Statement of Profit and Loss is similarly to the Trading and Profit & Loss Account prepared by proprietorship and partnership firms. The only difference is that it is prepared in the form of a statement and not an account.

Name of the Company ....

Balance Sheet *as at* ....

Particulars *(1)*	*Note No.* *(2)*	*Figures as at the end of the current reporting period* *(3)*	*Figures as at the end of the Previous reporting Period* *(4)*
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital			
(b) Reserves and Surplus			
(c) Money Received against Share Warrants			
2. Share Application Money Pending Allotment			
3. Non-Current Liabilities			
(a) Long-term Borrowings			
(b) Deferred Tax Liabilities (Net)			
(c) Other Long-term Liabilities			
(d) Long-term Provisions			
4. Current Liabilities			
(a) Short-term Borrowings			
(b) Trade Payables			
(c) Other Current Liabilities			
(d) Short-term Provisions			
Total			
II. 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 Investment			
(b) Inventories			
(c) Trade Receivables			
(d) Cash and Cash Equivalents			
(e) Short-term Loans and Advances			
(f) Other Current Assets			
Total			

Notes

Notes

Balance Sheet as prescribed in schedule VI part I of the Companies Act 1956 is broadly divided into two parts :

(I) Equity and Liabilities and (II) Assets

I. EQUITY AND LIABILITIES

Equity : It is the liability of the company towards its shareholders and is called as 'Shareholders' Funds'. It includes Share Capital, Reserves & Surplus and Money Received Against Share Warrents.

Liabilities : It means external liabilities of the company or liabilities towards outsiders. In between Shareholders' Fund and Liabilities, Application Money Pending Allotment is placed as per the prescribed form of the Balance Sheet. Liabilities have further been divided into (a) Non-current Liabilities and (b) Current Liabilities.

Non-current Liabilities have been defined as liabilities which are not current liabilities. Current liability is that liability which is :

i. expected to be settled in the company's normal operating cycle; or

ii. due to be settled within 12 months after the reporting date *i.e.,* Balance Sheet date; or

iii. held primarily for the purpose of being traded; or

iv. there is no unconditional right to defer settlement for at least 12 months after the reporting date.

The various items that are presented under the various heads of liabilities are given below :

(a) Long-term Borrowings

- (i) Debentures;
- (ii) Bonds;
- (iii) Term Loans;
- (iv) Public Deposits and
- (v) Other loans and advances

(b) Current Liabilities :

- (i) Short-term borrowings;
- (ii) Trade Payables;
- (iii) Other Current Liabilities and
- (iv) Short-term Provision.

Illustration : 1 (*Classification of Equity and Liabilities*)

State the major heads under Equity and Liabilities part of the company's Balance Sheet.

Solution :

Major heads on 'Equity and Liabilities' part are :

- Shareholders' Funds,
- Share Application Money Pending Allotment,
- Non-current Liabilities, and
- Current Liabilities

Illustration : 2 (*Classification of 'Shareholders' Funds'*)

Name the sub-heads under the head 'Shareholders' Funds'.

Solution :

(i) Share Capital,

(ii) Reserves and Surplus, and

(iii) Money Received against Share Warrants

Illustration : 3 (*Classification of 'Non-current Liabilities'*)

Name the sub-heads under the head 'Non-current Liabilities' in the Equity and Liabilities part of the Balance Sheet under Schedule VI.

Solution :

(i) Long-term Borrowings,

(ii) Deferred Tax Liabilities (Net),

(iii) Other Long-term Liabilities, and

(iv) Long-term Provisions.

Illustration : 4 (*Classification of 'Current Liabilities'*)

Name the sub-heads under the head 'Current Liabilities' in the Equity and Liabilities part of the Balance Sheet as per Schedule VI.

Solution :

(i) Short-term Borrowings,

(ii) Trade Payables,

(iii) Other Current Liabilities, and

(iv) Short-term Provisions.

Notes

Illustration : 5 (*Reserves and Surplus*)

Name **any five** items that are shown under Reserves and Surplus.

Solution :

(i) Capital Reserve,

(ii) Capital Redemption Reserve,

(iii) Securities Premium Reserve,

(iv) Debenture Redemption Reserve (DRR), and

(v) Revaluation Reserve

Illustration : 6 (*Long-term Borrowings*)

Name **any four** items that are shown under Long-term Borrowings.

Solution :

(i) Debentures/Bonds,

(ii) Term-loan from banks/other parties,

(iii) Deposits, and

(iv) Long-term Loans and Advances

Illustration : 7

Give major heads under which the following items will be shown in a company's Balance Sheet as per Schedule VI, Part I of Companies Act, 1956:

(i) Trade Payables,

(ii) Provision for Tax,

(iii) Surplus, *i.e.,* Balance in Statement of Profit and Loss (Dr.) and

(iv) Surplus, *i.e.,* Balance in Statement of Profit and Loss.

Solution :

S.No.	*Item*	*Major Head*	*Sub-head*
(i)	Trade Payables	Current Liabilities	....
(ii)	Provision for Tax	Current Liabilities	Short-term Provisions
(iii)	Surplus, *i.e.,* Balance in Statement of Profit and Loss (Dr.)	Reserves and Surplus	As negative amount
(iv)	Surplus, *i.e.,* Balance in Statement of Profit and Loss	Reserves and Surplus	....

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II. ASSETS

Like liabilities, assets are also divided into 'non-current assets' and 'current assets'. Non-current assets have been defined as assets that are not current. Current assets have been defined in Schedule VI of the Companies Act, 1956 as follows :

Current Assets are those assets which are :

i. expected to be realized in or intend for sale or consumption in the company's normal operating cycle; or

ii. held primarily for the purpose of trading; or

iii. expected to be realized within 12 months from reporting date *i.e.*, Balance Sheet date; or

iv. Cash and Cash equivalents unless they are restricted from being exchanged or used to settle a liability for at least 12 months after reporting date *i.e.,* Balance Sheet date.

Non-Current Assets are classified into the following five major heading as given below:

(a) Fixed Assets;

(b) Non-Current Investments;

(c) Deferred Tax Assets;

(d) Long-term Loans and Advances and

(e) Other non-current assets.

The items presented under these sub-heads are as follows :

1. *Fixed Assets :*

(i) Tangible Assets;

(ii) Intangible Assets;

(iii) Capital Work-in-Progress and

(iv) Intangible Assets under Development

Non-Current Investments :

(i) Investment in Property;

(ii) Investment in Equity Investments;

(iii) Investments in preference shares;

(iv) Investment in Govt. or Trust Securities;

(v) Investments in Debentures or Bonds;

(vi) Investments in Mutual Funds;

(vii) Investments in Partnership Firms and

(viii) Other Non-Current Investments.

Lont-Term Loans and Advances :

(i) Capital Advances;

(ii) Security Deposits;

(iii) Other Loans and Advances

2. **Current Assets :** These are shown under the following six heads :

(i) Current Investments;

(ii) Inventories

(iii) Trade Receivables;

(iv) Cash and Cash Equivalents;

(v) Short term loans and advances and

(vi) Other Current Assets.

31.2 FINANCIAL STATEMENTS ANALYSIS (MEANING, PURPOSE AND PARTIES INTERESTED)

We know business is mainly concerned with the financial activities. In order to ascertain the financial status of the business every enterprise prepares certain statements, known as financial statements. Financial statements are mainly prepared for decision making purposes. But the information as provided in the financial statements is not adequately helpful in drawing a meaningful conclusion. Thus, an effective analysis and interpretation of financial statements is required.

Analysis means establishing a meaningful relationship between various items of the two financial statements with each other in such a way that a conclusion is drawn.

The term financial analysis is also known as analysis and interpretation of financial statements. It refers to the establishing meaningful relationship between various items of the two financial statements i.e., Statement of Profit & Loss and Balance Sheet. It determines financial strength and weaknesses of the firm.

Analysis of financial statements is an attempt to assess the efficiency and performance of an enterprise. Thus, the analysis and interpretation of financial statements is very essential to measure the efficiency, profitability, financial soundness and future prospects of the business units. Financial analysis serves the following purposes :

- **Measuring the Profitability :** The main objective of a business is to earn a satisfactory return on the funds invested in it. Financial analysis helps in ascertaining whether adequate profits are being earned on the capital invested in the business or not. It also helps in knowing the capacity to pay the interest and dividend.

- **Indicating the Trend of Achievements :** Financial statements of the previous years can be compared and the trend regarding various expenses, purchases, sales, gross profits and net profit etc. can be ascertained. Value of assets and liabilities can be compared and the future prospects of the business can be envisaged.

- **Assessing the Growth Potential of the Business :** The trend and other analysis of the business provides sufficient information indicating the growth potential of the business.

- **Comparative Position in Relation to Other Firms :** The purpose of financial statements analysis is to help the management to make a comparative study of the profitability of various firms engaged in similar businesses. Such comparison also helps the management to study the position of their firm in respect of sales, expenses, profitability and utilising capital, etc.

- **Assess overall financial strength :** The purpose of financial analysis is to assess the financial strength of the business. Analysis also helps in taking decisions, whether funds required for the purchase of new machines and equipments are provided from internal sources of the business or not if yes, how much? And also to assess how much funds have been received from external sources.

- **Assess solvency of the firm :** The different tools of an analysis tell us whether the firm has sufficient funds to meet its short term and long term liabilities or not.

Parties Interested

Analysis of financial statements has become very significant due to widespread interest of various parties in the financial results of a business unit. The various parties interested in the analysis of financial statements are :

(i) **Investors :** Shareholders or proprietors of the business are interested in the well being of the business. They like to know the earning capacity of the business and its prospects of future growth.

(ii) **Management :** The management is interested in the financial position and performance of the enterprise as a whole and of its various divisions. It helps them in preparing budgets and assessing the performance of various departmental heads.

(iii) **Trade Unions :** They are interested in financial statements for negotiating the wages or salaries or bonus agreement with the management.

Notes

(iv) **Lenders :** Lenders to the business like debenture holders, suppliers of loans and lease are interested to know short term as well as long term solvency position of the entity.

(v) **Suppliers and Trade Creditors :** The suppliers and other creditors are interested to know about the solvency of the business i.e. the ability of the company to meet the debts as and when they fall due.

(vi) **Tax Authorities :** Tax authorities are interested in financial statements for determining the tax liability.

(vii) **Researchers :** They are interested in financial statements for undertaking research work in business affairs and practices.

(viii) **Employees :** They are interested to know the growth of profit. As a result of which they can demand better remuneration and congenial working environment.

(ix) **Government and their Agencies :** Government and their agencies need financial information to regulate the activities of the enterprises/industries and determine taxation policy. They suggest measures to formulate policies and regulations.

(x) **Stock Exchange :** The stock exchange members take interest in financial statements for the purpose of analysis because they provide useful financial information about companies.

Thus, we find that different parties have interest in financial statements for different reasons.

Limitations of Financial Analysis

Financial analysis helps the interested parties to make an assessment of the earning capacity and financial soundness of a business enterprise. But such analysis has its own limitations. Such limitations should be kept in mind while using the informations provided by the financial analysis. Some of the limitations are as follows :

(i) **Limitations of Financial Statements :** Financial analysis is based on financial statements. But financial statements themselves suffer from certain limitations, hence the limitations of financial statements are also the limitations of their analysis. For example, (*a*) sometimes the information given in financial statements are incomplete and not authentic, (*b*) financial Statements are based on accounting concepts and conventions. As such, the utility of financial analysis is decreased due to the shortcomings of financial statements.

(ii) **Affected by Window-dressing :** Some firms resort to window-dressing their financial statements to cover up bad financial position on the eve of accounting date. For example, they may not record the purchases made at the end of the year or they may overvalue their closing stock. In such cases, the results obtained by analysis of financial statements will be misleading.

(iii) Different Accounting Policies : If two firms adopt different accounting policies, the comparison between the two will be unreliable. For example, one firm may provide depreciation on original cost method, whereas the other firm may adopt the written-down value method for providing the depreciation. Similarly, the method of valuation of closing stock may also differ from one firm to another. The results obtained from the comparison of the financial statements of such firms may give misleading picture.

(iv) Difficulty in Forecasting : Financial statements are a record of past events and historical facts. In the fast changing and developing modern business, the analysis of past information may not be of much use in future forecasting. Continuous changes take place in the demand of the product, policies adopted by the firm, the position of competition etc. As such, no estimate based on the analysis of historical facts can be made for future.

(v) Lack of Qualitative Analysis : Financial statements record only those events and transactions which can be expressed in terms of money. qualitative aspects of business units are omitted from the books at all as these cannot be expressed in monetary terms. Thus, changes in management, reputation of the business, cordial management-labour relations, firm's ability to develop new products, efficiency of management, satisfaction of firm's customers etc. which have a vital bearing on the profitability of the company are all ignored and omitted from being recorded because all of these are qualitative in nature.

(vi) Limited Use of Single Year's Analysis of Financial Statements : Results obtained from financial analysis assume significance only when compared with the figures of previous periods. For example, the profit of a firm to sales is 12%, whether this is satisfactory or not, will depend upon the figures of previous years. If the firm earned 10% of sales as profit in the previous year, it may be considered to have done better this year. However, the financial statements of two years may not be comparable due to the changes in accounting policies.

It is clear from the above mentioned limitations that the results obtained from analysis of financial statements should not be taken as the true indicators of the strength and weaknesses of the concern. The results obtained from analysis must be read carefully and cautiously. The limitations of analysis must be kept in mind while taking decisions based on the results obtained from such analysis.

INTEXT QUESTIONS 31.1

I. Fill in the blanks with suitable word/words :

(i) Financial statements are .... and ....

(ii) The term financial analysis include both .... and ....

(iii) In order to ascertain the financial status of the business every enterprise prepares .... statements.

(iv) Financial statements are mainly prepared for .... purposes.

II. Two columns are given below. Column I lists the parties interested in analysis and column II states the subject of their interest. Match the two columns.

Column I	Column II
(i) Management	(a) about solvency of the business
(ii) Employees	(b) Profitability
(iii) Shareholders	(c) Performance of the enterprise as a whole
(iv) Suppliers and creditors	(d) Better remunerations

III. State whether the following statements are true or false :

(i) If two firms adopt different accounting policies, the comparison between the two will be unreliable.

(ii) Figures given in the financial statements do not speak by themselves.

(iii) Financial statements are records of past events and historical facts.

31.3 TECHNIQUES AND TOOLS OF FINANCIAL STATEMENT ANALYSIS

Financial statements give complete information about assets, liabilities, equity, reserves, expenses and profit & loss of an enterprise. They are not readily understandable to interested parties like creditors, shareholders, investors etc. Thus, various techniques are used for analysing and interpreting the financial statements. Techniques of analysis of financial statements are mainly classified into three categories :

(i) Cross-sectional Analysis : It is also known as inter firm comparison. This analysis helps in analysing financial characteristics of an enterprise with financial characteristics of another similar enterprise in that accounting period. For example, if company A has earned 15% profit on capital invested. This does not say whether it is adequate or not. If we analyse further and find that a similar company has earned 16% during the same period, then only we can make a conclusion that company B is better than company A. Thus, it turns into a meaningful analysis.

(ii) Time Series Analysis : It is also called as intra-firm comparison. According to this method, the relationship between different items of financial statements is established, comparisons are made and results obtained. The basis of comparison may be :

- Comparison of the financial statements of different years of the same business unit.

⏭ Comparison of financial statements of a particular year of different business units.

(iii) Cross-sectional cum Time Series Analysis : This analysis is intended to compare the financial characteristics of two or more enterprises for a defined accounting period. It is possible to extend such a comparison over the year. This approach is most effective in analysing of financial statements.

The analysis and interpretation of financial statements is used to determine the financial positon. A number of tools or methods or devices are used to study the relationship between financial statements. However, the following are the important tools which are commonly used for analysing and interpreting financial statements :

- Comparative financial statements
- Common size statements
- Trend analysis
- Ratio analysis
- Funds flow analysis
- Cash flow analysis

- **Comparative financial Statements**

In brief, comparative study of financial statements is the comparison of the financial statements of the business with the previous year's financial statements. It enables identification of weakpoints and applying corrective measures. Practically, two financial statements (balance sheet and income statement) are prepared in comparative form for analysis purposes.

1. Comparative Balance Sheet : The comparative balance sheet shows the different assets and liabilities of the firm on different dates to make comparison of balances from one date to another. The comparative balance sheet has two columns for the data of original balance sheets. A third column is used to show change (increase/decrease) in figures. The fourth column may be added for giving percentages of increase or decrease. While interpreting comparative Balance sheet the interpreter is expected to study the following aspects :

(i) Current financial position and Liquidity position

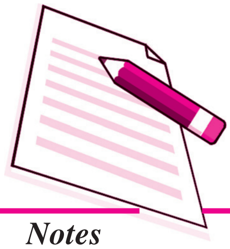
(ii) Long-term financial position

(iii) Profitability of the concern

(i) For studying current financial position or liquidity position of a concern one should examine the working capital in both the years. Working capital is the excess of current assets over current liabilities.

(ii) For studying the long-term financial position of the concern, one should examine the changes in fixed assets, long-term liabilities and capital.

(iii) The next aspect to be studied in a comparative balance sheet is the profitability of the concern. The study of increase or decrease in profit will help the interpreter to observe whether the profitability has improved or not.



Notes

After studying various assets and liabilities, an opinion should be formed about the financial position of the concern.

Format of Comparative Balance Sheet

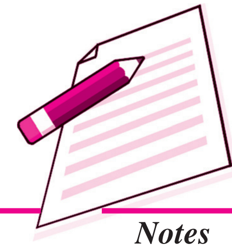
Comparative Balance Sheet

as at ....

Particulars	*Note No.*	*Previous Year ₹ (A)*	*Current Year ₹ (B)*	*Absolute Change (Increase/Decrease) ₹ (C = B - A)*	*Percentage Change (Increase/Decrease) ₹ (D = C/A X 100)*
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital:					
(i) Equity Share Capital		...	...	...	...
(ii) Preference Share Capital		...	...	...	...
(b) Reserves and Surplus		...	...	...	...
2. Non-Current Liabilities					
(a) Long-term Borrowings		...	...	...	...
(b) Long-term Provisions		...	...	...	...
3. Current Liabilities					
(a) Short-term Borrowings		...	...	...	...
(b) Trade Payables		...	...	...	...
(c) Other Current Liabilities		...	...	...	...
(d) Short-term Provisions		...	...	...	...
Total		...	...	...	...
II. ASSETS					
1. Non-Current Assets					
(a) Fixed Assets:					
(i) Tangible Assets		...	...	...	...
(ii) Intangible Assets		...	...	...	...
(b) Non-current Investments		...	...	...	...
(c) Long-term Loans and Advances		...	...	...	...
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		...	...	...	...
Total		...	...	...	...

Illustration : 8

From the following Balance Sheets of Exe Ltd. as at 31st March, 2014 and 2013, prepare a Comparative Balance Sheet :



Notes

Balance Sheets
as at 31st March, 2014 and 2013

Particulars	*Note No.*	*31st March, 2014 (₹)*	*31st March, 2013 (₹)*
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
Share Capital (Equity)		18,00,000	12,00,000
2. Non-Current Liabilities			
Long-term Borrowings: 8% Debentures (Secured)		6,00,000	6,00,000
3. Current Liabilities			
Trade Payables		6,00,000	3,00,000
Total		**30,00,000**	**21,00,000**
II. ASSETS			
1. Non-Current Assets			
Fixed Assets : Tangible Assets		18,00,000	15,00,000
2. Current Assets			
(a) Trade Receivables		10,00,000	5,00,000
(b) Cash and Cash Equivalents		2,00,000	1,00,000
Total		**30,00,000**	**21,00,000**

Solution :

Exe Ltd.
Comparative Balance Sheet
as at 31st March, 2013 and 2014

Particulars	*Note No.*	*31st March, 2013 ₹ (A)*	*31st March, 2014 ₹ (B)*	*Absolute Change (Increase/Decrease) ₹ (C = B - A)*	*Percentage Change (Increase/Decrease) % (D = C/A x 100)*
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
Share Capital :					
Equity Share Capital		12,00,000	18,00,000	6,00,000	50.00
2. Non-Current Liabilities					
Long-term Borrowings :					
Secured Loans - 8% Debentures		6,00,000	6,00,000	.....	.....
3. Current Liabilities					
Trade Payables		3,00,000	6,00,000	3,00,000	100.00
Total		**21,00,000**	**30,00,000**	**9,00,000**	**42.86**
II. ASSETS					
1. Non-Current Assets					
Fixed Assets (Tangible)		15,00,000	18,00,000	3,00,000	20.00
2. Current Assets					
(a) Trade Receivables		5,00,000	10,00,000	5,00,000	100.00
(b) Cash and Cash Equivalents		1,00,000	2,00,000	1,00,000	100.00
Total		**21,00,000**	**30,00,000**	**9,00,000**	**42.86**

Notes

Illustration : 9

Prepare Comparative Balance Sheet of *XY* Ltd. :

Particulars	*31st March, 2014 (₹)*	*31st March, 2013 (₹)*
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) *Share Capital :* Equity Share Capital	3,60,000	3,00,000
(*b*) *Reserves and Surplus*	1,50,000	1,20,000
2. Non-Current Liabilities		
Long-term Borrowings	2,55,000	1,70,000
3. Current Liabilities		
Trade Payables	1,20,000	1,50,000
Total	**8,85,000**	**7,40,000**
II. ASSETS		
1. Non-Current Assets		
Fixed Assets :		
(*i*) Tangible Assets	6,50,000	5,00,000
(*ii*) Intangible Assets	1,00,000	1,00,000
2. Current Assets		
(a) Trade Receivables	1,25,000	1,20,000
(b) Cash and Cash Equivalents	10,000	20,000
Total	**8,85,000**	**7,74,000**

Solution :

Comparative Balance Sheet of *XY* Ltd.

as at 31st March, 2013 and 2014

Particulars	*Note No.*	*31st March, 2013 ₹ (A)*	*31st March, 2014 ₹ (B)*	*Absolute Change (Increase/Decrease) ₹ (C = B - A)*	*Percentage Change (Increase/Decrease) % (D = C/A x 100)*
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(*a*) *Share Capital :* Equity Share Capital		3,00,000	3,60,000	60,000	20.00
(*b*) Reserves and Surplus		1,20,000	1,50,000	30,000	25.00
2. Non-Current Liabilities					
Long-term Borrowings		1,70,000	2,55,000	85,000	50.00
3. Current Liabilities					
Trade Payables		1,50,000	1,20,000	(30,000)	(20.00)
Total		**7,40,000**	**8,85,00**	**1,45,000**	**19.60**
II. ASSETS					
1. Non-Current Assets					
Fixed Assets :					
(i) Tangible Assets		5,00,000	6,50,000	1,50,000	30.00
(ii) Intangible Assets		1,00,000	1,00,000	.....	.....
2. Current Assets					
(a) Trade Receivables		1,20,000	1,25,000	5,000	4.17
(b) Cash and Cash Equivalents		20,000	10,000	(10,000)	(50.00)
Total		**7,40,000**	**8,85,000**	**1,45,000**	**19.60**

Notes

Comparative Income statement or Comparative Statement of Profit & Loss

The income statement provides the results of the operations of a business. This statement traditionally is known as trading and profit and loss A/c. Important components of income statement are net sales, cost of goods sold, selling expenses, office expenses etc. The figures of the above components are matched with their corresponding figures of previous years individually and changes are noted. The comparative income statement gives an idea of the progress of a business over a period of time. The changes in money value and percentage can be determined to analyse the profitability of the business. Like comparative balance sheet, income statement also has four columns. The first two columns shows figures of various items for two years. Third and fourth columns are used to show increase or decrease in figures in absolute amount and percentages respectively.

The analysis and interpretation of income statement will involve the following :

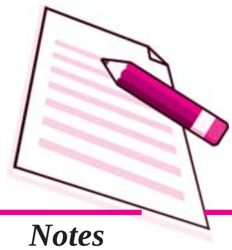
- The increase or decrease in sales should be compared with the increase or decrease in cost of goods sold.
- To study the operating profits
- The increase or decrease in net profit is calculated that will give an idea about the overall profitability of the concern.

Format of Comparative Statement of Profit & Loss

COMPARATIVE STATEMENT OF PROFIT AND LOSS

for the year ended 31st March, 2013 and 2014

Particulars	*Note No.*	*31st March, 2013* ₹	*31st March, 2014* ₹	*Absolute Change (Increase/Decrease)* ₹	*Percentage Change (Increase/Decrease)* %
I. Revenue from Operations		....	....	....	....
II. Other Income		....	....	....	....
III. **Total Revenue (I + II)**		....	....	....	....
IV. Expenses					
(a) Cost of Materials Consumed		....	....	....	....
(b) Purchases of Stock-in-Trade		....	....	....	....
(c) Change in Inventories of Finsished Goods, Work-in-Progress and Stock-in-Trade		....	....	....	....
(d) Employees Benefit Expenses		....	....	....	....
(e) Finance Costs		....	....	....	....
(f) Depreciation and Amortisation Expenses		....	....	....	....
(g) Other Expenses		....	....	....	....
Total		....	....	....	....
V. ***Profit before Tax (III - IV)***		....	....	....	....
Less : Income Tax		....	....	....	....
VI. **Profit after Tax**		....	....	....	....



Notes

Illustration 10 :

Prepare Comparative Statement of Profit and Loss from the following :

Particulars	*Note No.*	*31st March, 2012 (₹)*	*31st March, 2011 (₹)*
Revenue from Operations		15,00,000	10,00,000
Expenses		10,50,000	6,00,000
Other Income		1,80,000	2,00,000

Solution :

Comparative Statement of Profit and Loss
for the years ended 31st March, 2011 and 2012

Particulars	*Note No.*	*31st March, 2011 ₹ (A)*	*31st March, 2012 ₹ (B)*	*Absolute Change (Increase/Decrease) ₹ (C = B - A)*	*Percentage Change (Increase/Decrease) % (D = C/A x 100)*
I. Revenue from Operations		10,00,000	15,00,000	5,00,000	50.00
II. Other Income		2,00,000	1,80,000	(20,000)	(10.00)
III. **Total Revenue (I + II)**		12,00,000	16,80,000	4,80,000	40.00
IV. *Less:* Expenses		6,00,000	10,50,000	4,50,000	75.00
V. **Profit before Tax (III - IV)**		6,00,000	6,30,000	30,000	5.00

Illustration 11 :

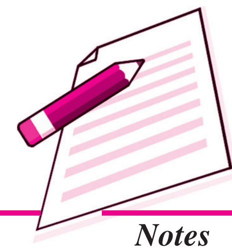
From the following statement of Profit and Loss of Star Ltd. for the years ended 31st March, 2011 and 2012, Prepare a Comparative Statement of Profit and Loss :

Particulars	*Note No.*	*31st March, 2012 (₹)*	*31st March, 2011 (₹)*
Revenue from Operations		20,00,000	16,00,000
Employees Benefit Expenses		10,00,000	8,00,000
Other Expenses		1,00,000	2,00,000

Solution :

Comparative Statement of Profit and Loss
for the years ended 31st March, 2011 and 2012

Particulars	*Note No.*	*31st March, 2011 ₹ (A)*	*31st March, 2012 ₹ (B)*	*Absolute Change (Increase/Decrease) ₹ (C = B - A)*	*Percentage Change (Increase/Decrease) % (D = C/A x 100)*
I. Revenue from Operations		16,00,000	20,00,000	4,00,000	25.00
II. *Less :* Expenses					
(a) Employees Benefit Expenses		8,00,000	10,00,000	2,00,000	25.00
(b) Other Expenses		2,00,000	1,00,000	(1,00,000)	(50.00)
Total Expenses		10,00,000	11,00,000	1,00,000	10.00
III. **Profit before Tax (I - II)**		6,00,000	9,00,000	3,00,000	50.00



Notes

Illustration 12 :

Following information is extracted from the Statement of Profit and Loss of Gold Star Ltd., for the years ended 31st March, 2014 and 2013. Prepare Comparative Statement of Profit and Loss.

Particulars	*Note No.*	*31st March, 2014 (₹)*	*31st March, 2013 (₹)*
Revenue from Operations		40,00,000	32,00,000
Employees Benefit Expenses		20,00,000	16,00,000
Depreciation and Amortisation Expenses		50,000	40,000
Other Expenses		1,50,000	3,60,000
Tax Rate 30%			

Solution :

Comparative Statement of Profit and Loss

for the years ended 31st March, 2013 and 2014

Particulars	*Note No.*	*31st March, 2013 ₹ (A)*	*31st March, 2014 ₹ (B)*	*Absolute Change (Increase/Decrease) ₹ (C = B - A)*	*Percentage Change (Increase/Decrease) % (D = C/A x 100)*
I. Revenue from Operations		32,00,000	40,00,000	8,00,000	25.00
II. **Expenses**					
(a) Employees Benefit Expenses		16,00,000	20,00,000	4,00,000	25.00
(b) Depreciation and Amortisation Expenses		40,000	50,000	10,000	25.00
(c) Other Expenses		3,60,000	1,50,000	(2,10,000)	(58.33)
Total xpenses		**20,00,000**	**22,00,000**	**2,00,000**	**10.00**
III. **Profit before Tax (I - II)**		**12,00,000**	**18,00,000**	**6,00,000**	**50.00**
Less : Tax @ 30%		3,60,000	5,40,000	1,80,000	50.00
IV. **Profit after Tax**		**8,40,000**	**12,60,000**	**4,20,000**	**50.00**

Illustration 13 :

Prepare Comparative Statement of Profit and Loss from the following :

Particulars	*Note No.*	*31st March, 2014 (₹)*	*31st March, 2013 (₹)*
Revenue from Operations		8,00,000	4,20,000
Purchases of Stock-in-Trade		4,50,000	2,50,000
Change in Inventories of Stock-in-Trade		50,000	50,000
Other Expenses (% of Cost of Goods Sold)		8%	10%
Tax		30%	30%

Solution :

Comparative Statement of Profit and Loss
for the years ended 31st March, 2013 and 2014

Particulars	*Note No.*	*31st March, 2013 ₹ (A)*	*31st March, 2014 ₹ (B)*	*Absolute Change (Increase/Decrease) ₹ (C = B - A)*	*Percentage Change (Increase/Decrease) % (D = C/A x 100)*
I. Revenue from Operations (Sales)		4,20,000	8,00,000	3,80,000	90.47
II. **Expenses**					
(a) Purchases of Stock-in-Trade		2,50,000	4,50,000	2,00,000	80.00
(b) Change in Inventories of Stock-in-Trade		50,000	50,000	.....	.....
(c) Other Expenses		30,000	40,000	10,000	33.33
Total Expenses		**3,30,000**	**5,40,000**	**2,10,000**	**63.64**
III. **Profit before tax (I - II)**		**90,000**	**2,60,000**	**1,70,000**	**188.89**
Less: Tax		27,000	78,000	51,000	188.89
IV. **Profit after Tax**		63,000	1,82,000	1,19,000	188.89

Note : Cost of Goods Sold = Purchases + Change in Inventories.

INTEXT QUESTIONS 31.2

Fill in the blanks with appropriate word/words :

(i) Time series analysis is a technique of ....

(ii) Comparative statement is a .... for financial statement analysis.

(iii) .... is the comparison of the financial statements of business with the previous years financial statements.

(iv) Comparative .... shows the different assets and liabilities of the firm on different dates to make comparison of balances from one date to another.

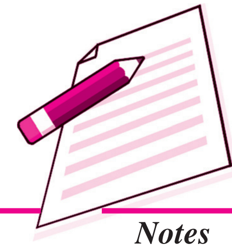
(v) .... income statement gives an idea of the progress of a business over a period of time.

31.4 COMMON SIZE STATEMENTS AND TREND ANALYSIS

The common size statements (Balance Sheet and Income Statement) are shown in analytical percentages. The figures of these statements are shown as percentages of total assets, total liabilities and total sales respectively. Take the example of Balance Sheet. The total assets are taken as 100 and different assets are expressed as a percentage of the total. Similarly, various liabilities are taken as a part of total liabilities.

Common Size Balance Sheet

A statement where balance sheet items are expressed in the ratio of each asset to total assets and the ratio of each liability is expressed in the ratio of total liabilities is called common size balance sheet.



Notes

Thus the common size statement may be prepared in the following way.

- The total assets or liabilities are taken as 100
- The individual assets are expressed as a percentage of total assets i.e. 100 and different liabilities are calculated in relation to total liabilities.

For example, if total assets are ₹10 lakhs and value of inventory is ₹ 1,00,000, then inventory will be 10% of total assets $\left(\frac{1,00,000 \times 100}{10,00,000}\right)$

Format of Common-size Balance Sheet

COMMON-SIZE BALANCE SHEET

as at 31st March, 2013 and 2014

Particulars	*Note No.*	*Absolute Amounts*		*Percentage of Balance Sheet Total*	
		31st March, 2013 (₹)	*31st March, 2014 (₹)*	*31st March, 2013 (%)*	*31st March, 2014 (%)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) *Share Capital:*					
(i) Equity Share Capital		....	....	....	....
(ii) Preference Share Capital		....	....	....	....
(b) Reserves and Surplus		....	....	....	....
2. Non-Current Liabilities					
(a) Long-term Borrowings		....	....	....	....
(b) Long-term Provisions		....	....	....	....
3. Current Liabilities					
(a) Short-term Borrowings		....	....	....	....
(b) Trade Payables		....	....	....	....
(c) Other Current Liabilities		....	....	....	....
(d) Short-term Provisions		....	....	....	....
Total		....	....	100	100
II. ASSETS					
1. Non-Current Assets					
(a) *Fixed Assets:*					
(i) Tangible Assets		....	....	....	....
(ii) Intangible Assets		....	....	....	....
(b) Non-Current Investments		....	....	....	....
(c) Long-term Loans and Advances		....	....	....	....
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		....	....	....	....
Total		....	....	100	100

Illustration 14

From the following Balance Sheets of *XYZ* Ltd. as at 31st March, 2014 and 2013, prepare a Common-size Balance Sheet.

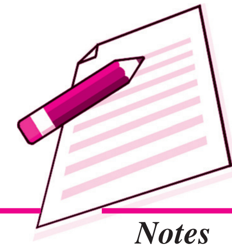
Balance Sheets
as at 31st March, 2014 and 2013

Particulars	*Note No.*	*31st March, 2014 (₹)*	*31st March, 2013 (₹)*
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		10,00,000	5,00,000
(b) Reserves and Surplus		2,00,000	3,00,000
2. Non-Current Liabilities			
Long-term Borrowings		8,00,000	5,00,000
3. Current Liabilities			
Trade Payables		4,00,000	2,00,000
Total		**24,00,000**	**15,00,000**
II. ASSETS			
1. Non-Current Assets			
Fixed Assets - Tangible Assets		15,00,000	10,00,000
2. Current Assets			
Cash and Cash Equivalents		9,00,000	5,00,000
Total		**24,00,000**	**15,00,000**

Solution :

Common-size Balance Sheet of *XYZ* Ltd.
as at 31st March, 2013 and 2014

Particulars	*Note No.*	*Absolute Amounts*		*Percentage of Balance Sheet Total*	
		31st March, 2013 (₹)	*31st March, 2014 (₹)*	*31st March, 2013 (%)*	*31st March, 2014 (%)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		5,00,000	10,00,000	33.33	41.67
(b) Reserves and Surplus		3,00,000	2,00,000	20.00	8.33
2. Non-Current Liabilities					
Long-term Borrowings		5,00,000	8,00,000	33.34	33.33
3. Current Liabilities					
Trade Payables		2,00,000	4,00,000	13.33	16.67
Total		15,00,000	24,00,000	100.00	100.00



II. ASSETS					
1. Non-Current Assets					
Fixed Assets - Tangible Assets		10,00,000	15,00,000	66.67	62.50
2. Current Assets					
Cash and Cash Equivalents		5,00,000	9,00,000	33.33	37.50
Total		**15,00,000**	**24,00,000**	**100.00**	**100.00**

Note : % is calculated on the basis of total of equity and liabilities/total assets

$$\% \text{ of Share Capital (31st March, 2013)} = \frac{5,00,000}{15,00,000} \times 100 = 33.33\%$$

In the same manner, other percentages may be calculated.

Illustration 15

From the following Balance Sheets of Sun Ltd., as at 31st March, 2014 and 2013, prepare Common-Size Balance Sheet.

Particulars	*Note No.*	*31st March, 2014 (₹)*	*31st March, 2013 (₹)*
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		80,00,000	60,00,000
(b) Reserves and Surplus		12,00,000	8,00,000
2. Non-Current Liabilities			
Long-term Borrowings		24,00,000	20,00,000
3. Current Liabilities			
Short-term Borrowings		4,00,000	12,00,000
Total		**1,20,00,000**	**1,00,00,000**
II. ASSETS			
1. Non-Current Assets			
Fixed Assets :			
(i) Tangible Assets		80,00,000	60,00,000
(ii) Intangible Assets		4,00,000	12,00,000
2. Current Assets			
(a) Inventories		24,00,000	20,00,000
(b) Cash and Cash Equivalents		12,00,000	8,00,000
Total		**1,20,00,000**	**1,00,00,000**

Solution :

Common-size Balance Sheet of Sun Ltd.

as at 31st March, 2013 and 2014

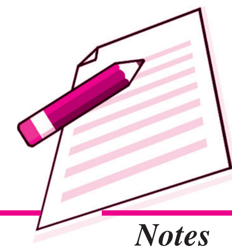
Particulars	*Note No.*	*Absolute Amounts*		*Percentage of Balance Sheet Total*	
		31st March, 2013 (₹)	*31st March, 2014 (₹)*	*31st March, 2013 (%)*	*31st March, 2014 (%)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		60,00,000	80,00,000	60.00	66.70
(b) Reserves and Surplus		8,00,000	12,00,000	8.00	10.00
2. Non-Current Liabilities					
Long-term Borrowings		20,00,000	24,00,000	20.00	20.00
3. Current Liabilities					
Short-term Borrowings		12,00,000	4,00,000	12.00	3.30
Total		**10,00,000**	**1,20,00,000**	**100.00**	**100.00**
II. ASSETS					
1. Non-Current Assets					
Fixed Asset:					
(i) Tangible Assets		60,00,000	80,00,000	60.00	66.70
(ii) Intangible Assets		12,00,000	4,00,000	12.00	3.30
2. Current Assets					
(a) Inventories		20,00,000	24,00,000	20.00	20.00
(b) Cash and Cash Equivalents		8,00,000	12,00,000	8.00	10.00
Total		**1,00,00,000**	**1,20,00,000**	**100.00**	**100.00**

Common Size Income Statement

The items in income statement can be shown as percentages of sales to show the relations of each item to sales.

Format of Common Size Statement of Profit and Loss (Income Statement)

Particulars	*Note No.*	*Absolute Amounts*		*Percentage of Revenue from Operations (Net Sales)*	
		2013 (₹)	*2014 (₹)*	*2013 (%)*	*2014 (%)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
I. Revenue from Operations (Net Sales)		....	....	....	....
II. Other Income		....	....	....	....
III. **Total Revenue (I + II)**		....	....	....	....
IV. **Expenses**					
(a) Cost of Materials Consumed		....	....	....	....
(b) Purchases of Stock-in-Trade		....	....	....	....
(c) Change in Inventories of					



Notes

Finished Goods, Work-in-Progress and Stock-in-Trade		....	....	....	....
(d) Employees Benefit Expenses		....	....	....	....
(e) Finance Costs		....	....	....	....
(f) Depreciation and Amortisation Expenses		....	....	....	....
(g) Other Expenses		....	....	....	....
Total Expenses		....	....	....	....
V. **Profit before Tax (III - IV)**		....	....	....	....
VI. *Less:* Income Tax		....	....	....	....
VII. **Profit after Tax (V - VI)**		....	....	....	....

Illustration : 16

From the following Statement of Profit and Loss of Star Ltd. for the years ended 31st March, 2014 and 2013, prepare a Common-size Statement of Profit and Loss:

Particulars	*31st March, 2014 (₹)*	*31st March, 2013 (₹)*
Revenue from Operations	20,00,000	16,00,000
Employees Benefit Expenses	10,00,000	8,00,000
Other Expenses	1,00,000	2,00,000

Solution :

Common-size Statement of Profit and Loss

for the years ended 31st March, 2013 and 2014

Particulars	*Note No.*	*Absolute Amounts*		*Percentage of Revenue from Operations (Net Sales)*	
		2013 (₹)	*2014 (₹)*	*2013 (%)*	*2014 (%)*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
I. Revenue from Operations		16,00,000	20,00,000	100.00	100.00
II. Employees Benefit Expenses		8,00,000	10,00,000	50.00	50.00
Other Expenses		2,00,000	1,00,000	12.50	5.50
III. Total Expenses		10,00,000	11,00,000	62.50	55.00
IV. **Profit before Tax (I - III)**		**6,00,000**	**9,00,000**	**37.50**	**45.00**

Illustration : 17

From the following Statement of Profit and Loss, prepare Common-size Statement of Profit and Loss and give comments.

Particulars		*31st March, 2014 (₹)*	*31st March, 2013 (₹)*
I.	**Income**		
	Revenue from Operations (Net Sales)	12,50,000	10,00,000
II.	**Expenses**		
	Purchases of Stock-in-Trade	8,70,000	7,20,000
	Change in Inventories of Stock-in-Trade	(20,000)	30,000
	Depreciation and Amortisation Expenses	30,000	20,000
	Other Expenses	50,000	30,000
	Total	**9,30,000**	**8,00,000**
III.	**Profit before Tax (I - II)**	**3,20,000**	**2,00,000**
IV.	*Less:* Income Tax	96,000	60,000
V.	**Profit after Tax (III - IV)**	**2,24,000**	**1,40,000**

Solution :

Common-size Statement of Profit and Loss

for the years ended 31st March, 2013 and 2014

Particulars	*Note No.*	*Absolute Amounts*		*Percentage of Revenue from Operations (Net Sales)*	
(1)	*(2)*	*2013 (₹) (3)*	*2014 (₹) (4)*	*2013 (%) (5)*	*2014 (%) (6)*
I. Revenue from Operations (Net Sales)		10,00,000	12,50,000	100.00	100.00
II. **Expenses**					
(a) Purchases of Stock-in-Trade		7,20,000	8,70,000	72.00	69.60
(b) Change in Inventories of Stock-in-Trade		30,000	(20,000)	3.00	(1.60)
(c) Depreciation and Amortisation Expenses		20,000	30,000	2.00	2.40
(d) Other Expenses		30,000	50,000	3.00	4.00
III. **Total Expenses**		**8,00,000**	**9,30,000**	**80.00**	**74.40**
IV. **Profit before Tax (I - II)**		**2,00,000**	**3,20,000**	**20.00**	**25.60**
V. *Less :* Income Tax		60,000	96,000	6.00	7.68
VI. **Profit after Tax (III - IV)**		**1,40,000**	**2,24,000**	**14.00**	**17.92**

Comments :

1. Purchases of Stock-in-Trade and Change in Inventories of Stock-in-Trade have decreased from 75% to 68%. There are two possible reasons for this change :
   i. Efficient functioning of the purchase and production department.
   ii. Increase in the sale price of the product without corresponding increase in the cost of inputs.
2. Increase in net profit is mainly due to decrease in the percentage of Cost of Goods Sold.

INTEXT QUESTIONS 31.3

Fill in the blanks with appropritate word/words

(i) .... statement shows analytical percentage. (comparative, common size)

(ii) .... balance sheet items are expressed in the ratio of each asset to total assets and ratio of each liability to total liabilities. (comparative, common size)

(iii) .... analysis is a technique of studying several financial statements over a series of years. (Trend, time series)

(iv) Trend percentage is calculated on the basis of .... year. (current, base)

WHAT YOU HAVE LEARNT

- Analysis of financial statements means establishing meaningful, relationship between various items of the two financial statements i.e. income statement and position statement.
- Limitations of Financial Analysis
  - (i) Affected by window dressing
  - (ii) Do not reflect changes in price level.
  - (iii) Different Accounting policies.
  - (iv) Difficulty in forecasting.
  - (v) Limitations of financial statements.
- The main parties interested in analysis of financial statements are

(i)	Investors	(ii)	Management
(iii)	Trade unions	(iv)	Lenders
(v)	Trade creditors	(vi)	Employees
(vii)	Tax authorities	(viii)	Government
(ix)	Stock exchange	(x)	Researchers

- The major techniques of financial statement analysis are
  - (i) Cross-sectional analysis
  - (ii) Time series analysis
  - (iii) Cross-sectional and time series analysis.

- The major tools for financial statement analysis are :
  (i) comparative statement (ii) Common size statement
  (iii) Ratio analysis (iv) Funds flow analysis
  (v) cash flow analysis
- Comparative study of financial statements is the comparison of the financial statements of the business with the previous years financial statements.
- Comparative Balance Sheet shows the different assets and liabilites of the firm on different dates to make comparison of balances from one date to another.
- Common size balance sheet items are expressed in the ratio of each asset to total assets and the ratio of each liability is expressed in the ratio of total liablities.

TERMINAL EXERCISE

1. State any four tools which are commonly used for analysing and interpreting financial statements.
2. What are the main limitations of financial Analysis? Explain in detail.
3. How do limitations of financial statements became limitation of analysis of financial statements.
4. State any three limitations of analysis of financial statements.
5. Briefly explain the limitations of analysis of financial statements.
6. What are the main techniques of financial statement analysis?
7. Briefly explain the parties interested in analysis of financial statements.
8. Write a brief note on comparative statement, common size statement and trend analysis.
9. Following are the Balance Sheets of Radha Ltd. as at 31st March, 2014 and 2013 :

Particulars	*31st March, 2014 (₹)*	*31st March, 2013 (₹)*
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	15,00,000	10,00,000
(b) Reserves and Surplus	10,00,000	10,00,000
2. Non-Current Liabilities		
Long-term Borrowings	8,00,000	2,00,000
3. Current Liabilities		
Trade Payables	5,00,000	3,00,000
Total	**38,00,000**	**25,00,000**

Notes

II. ASSETS		
1. Non-Current Assets		
Fixed Assets :		
(i) Tangible Assets	25,00,000	15,00,000
(ii) Intangible Assets	5,00,000	5,00,000
2. Current Assets		
(a) Trade Receivables	6,00,000	3,50,000
(b) Cash and Cash Equivalents	2,00,000	1,50,000
Total	**38,00,000**	**25,00,000**

You are required to prepare Comparative Balance Sheet on the basis of the information given in the above Balance Sheets.

10. Prepare Comparative Balance Sheet of Deepankur Ltd.:

Particulars	*March 31, 2014 (₹)*	*March 31, 2013 (₹)*
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	9,00,000	7,50,000
(b) Reserves and Surplus	3,30,000	2,85,000
2. Non-Current Liabilities		
Long-term Borrowings:		
12% Debentures, Secured	3,00,000	4,50,000
3. Current Liabilities		
(a) Short-term Borrowings	1,40,000	1,70,000
(b) Trade Payables	2,00,000	1,50,000
(c) Other Current Liabilities	60,000	45,000
(d) Short-term Provisions	20,000	10,000
Total	**19,50,000**	**18,60,000**
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets	9,55,000	10,45,000
(b) Non-Current Investments	2,00,000	2,00,000
2. Current Assets		
(a) Inventories	2,50,000	2,00,000
(b) Trade Receivables	2,50,000	2,25,000
(c) Cash and Cash Equivalents	1,95,000	1,10,000
(d) Other Current Assets	1,00,000	80,000
Total	**19,50,000**	**18,60,000**

11. From the following Statement of Profit and Loss, prepare Comparative Statement of Profit and Loss (Income Statement) :

Particulars	*31st March, 2014 (₹)*	*31st March, 2013 (₹)*
I. Income		
Revenue from Operations (Sales)	19,20,000	16,00,000
II. Expenses		
Purchases of Stock-in-Trade	11,70,000	9,50,000
Change in Inventories of Stock-in-Trade	(10,000)	50,000
Employees Benefit Expenses	3,80,000	2,80,000
Other Expenses	1,50,000	2,00,000
Total	**16,90,000**	**14,80,000**
III. Net Profit (I - II)	**2,30,000**	**1,20,000**

12. From the following information taken from the Statement of Profit and Loss of Star Products Ltd. for the years ended 31st March, 2014 and 2013, prepare Comparative Statement of Profit and Loss:

Particulars	*Note No.*	*31st March, 2014 (₹)*	*31st March, 2014 (₹)*
Revenue from Operations		50,00,000	40,00,000
Employees Benefit Expenses		13,10,000	12,00,000
Other Expenses		15,00,000	13,00,000
Tax Rate (30%)			

ANSWERS TO INTEXT QUESTIONS

31.1 I. (i) Statement of Profit and Loss, Balance Sheet.
(ii) analysis, interpretation
(iii) financial
(iv) decision making

II. (i) (c) (ii) (d) (iii) (b) (iv) (a)

III. (i) True (ii) True (iii) True

31.2 (i) financial statement analysis (ii) tool
(iii) comparative statement (iv) balance sheet
(v) comparative

31.3 (i) Comparative (ii) Comparative (iii) Trend (iv) base