27

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'. 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 comparision. 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 :

- 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.

27.1 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 is 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. By financial statements we mean two statements :

(i) Profit and loss Account or Income Statement

(ii) Balance Sheet or Position Statement

These are prepared at the end of a given period of time. They are the indicators of profitability and financial soundness of the business concern.

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. Income statement and position statement. 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.

(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 in 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 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.

INTEXT QUESTIONS 27.1

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 a .... statement.

(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

27.2 TECHNIQUES AND TOOLS OF FINANCIAL STATEMENT ANALYSIS

Financial statements give complete information about assets, liabilities, equity, reserves, expenses and profit and loss of an enterprise. They are not readily understandable to interested parties like creditors, shareholders, investors etc. Thus, various techniques are employed 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. 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 statement 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 statement 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.

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

Illustration 1

The following is the Balance Sheets of MS Gupta for the years 2006 and 2007. Prepare the comparative Balance Sheet and study the financial position of the concern.

Balance Sheet as on 31st December

Liabilities	2006 Rs	2007 Rs	Assets	2006 Rs	2007 Rs
Equity share capital	500,000	700,000	Land and Building	270,000	1,70,000
Reserves and surplus	330,000	222,000	Plant and Machinery	400,000	600,000
Debentures	200,000	300,000	Furniture	20,000	25,000
Long term loan on mortgage	100,000	150,000	Other fixed assets	25,000	30,000
Bill Payables	50,000	45,000	Cash in hand	20,000	40,000
Sundry creditors	100,000	120,000	Bill Receivables	100,000	80,000
Other current liabilities	5000	10,000	Sundry debtors	200,000	250,000
			Stock	250,000	350,000
			Prepaid Expenses	—	2000
	1285000	1547000		1285000	1547000

Solution :

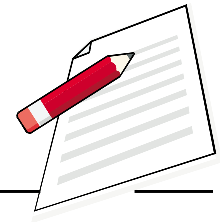
Comparative Balance Sheet of MS Gupta for the year ending December 2006 and 2007

	Year ending 31st Dec		Increase/ Decrease	Increase Decrease
Assets	2006	2007	(Amount) (Rs)	(Percentage)
I. Current Assets				
Cash in hand	20,000	40,000	+20,000	+100
Bill Receivables	100,000	80,000	–20,000	–20
Sundry Debtors	200,000	250,000	+50,000	+25

Stock	250,000	350,000	+100000	+40
Prepaid expenses	–	2000	+2000	+100
Total current assets	570,000	722,000	+152,000	26.67
II. Fixed Assets				
Land and Building	270,000	170,000	–100000	–37.03
Plant and Machinery	400,000	600,000	+200,000	+50.00
Furniture	20,000	25,000	+5000	+25.00
Other fixed assets	25000	30,000	+5000	+20.00
Total Fixed Assets	715000	825000	+110000	+13.49
Total Assets	1285000	1547000	+262000	20.39
Liabilities & Capital :				
I. Current liabilities				
Bill Payables	50,000	45,000	–5,000	–10
Sundry creditors	100,000	120,000	+20,000	+20
Other current liabilities	5,000	10,000	+5,000	+100
Total current liabilities	155,000	175,000	+20,000	+12.9
II.				
Debentures	200,000	300,000	+100,000	+50
Long term loan on mortgage	100,000	150,000	+50000	+50
Total long term liabilities	300,000	450,000	+150,000	+50
Total liabilities	455000	625000	+170,000	+37.36
III.				
Equity share capital	500,000	7,00,000	+200,000	+40.00
Reserve & surplus	330,000	2,22,000	–108,000	–32.73
Total owned equities	8,30,000	9,22,000	+82,000	+50
Total capital & liabilities	1285000	1547000	+262,000	+20.39

Interpretation

(i) The comparative balance sheet of the company reveals that during 2007 there has been an increase in fixed assets of 110,000 i.e. 13.49%. Long



Notes

term liabilities to outsiders have relatively increased by Rs 150,000 and equity share capital has increased by Rs 200000. This fact indicates that the policy of the company is to purchase fixed assets from the long-term sources of finance.

(ii) The current assets have increased by Rs 152000 i.e. 26.67% and cash has increased by Rs 20,000. The current liabilities have increased only by Rs 20000 i.e. 12.9%. This further confirms that the company has used long-term finances even for the current assets resulting into an improvement in the liquidity position of the company.

(iii) Reserves and surplus have decreased from Rs 330,000 to Rs 222,000 i.e. 32.73% which shows that the company has utilized reserves and surplus for the payment of dividends to shareholders either in cash or by way of bonus.

(iv) The overall financial position of the company is satisfactory.

Comparative Income statement

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 are shown 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.

Illustration 2

The income statements of a concern are given for the year ending 31st December 2006 and 2007. Rearrange the figures in a comparative form and study the profitability of the concern

Details	2006 Amount (Rs)	2007 Amount (Rs)
Net Sales	785,000	900,000
Cost of goods sold	450,000	500,000
Operating expenses :		
General and administrative expenses	70,000	72,000
Selling expenses	80,000	90,000
Non-operating expenses :		
Interest paid	25,000	30,000
Income tax	70,000	80,000

Solution :

Comparative income statement for the year ended 31st Dec 2006 and 2007

Detaiils	2006 Amount (Rs)	2007 Amount (Rs)	Increase (+) Decrease (–) (Rs)	Increase (+) Decrease (–) (Percentage)
Net sales	785,000	900,000	+115000	+14.65
Less cost of goods sold	450,000	500,000	+50000	+11.11
Gross profit	335,000	400,000	+65000	+19.40
Operating expenses :				
General & Administrative	70,000	72,000	+2000	+2.8
Selling expenses	80,000	90,000	+10000	+12.5
Total operating expenses	150,000	162,000	+12000	+8.0
Operating profit	185,000	238,000	+53000	+28.65
Less : other deductions				
Interest received	25,000	30,000	+5000	+20
Net profit before tax	160,000	208,000	+48000	+30.0
Less income tax	70,000	80,000	+10000	+14.28
Net profit after tax	90,000	128,000	+38000	+42.22

Interpretation

The comparative income statement given above shows that there has been an increase in net sales of 14.65%. The cost of goods sold has increased by 11%. This has resulted in increase of gross profit by 19.4%.

Operating expenses have increased by 8%. The increase in gross profit is sufficient to cover the operating expenses. There is also an increase in net profit after tax of Rs 38000 i.e. 42.22%.

It is concluded from the above analysis that there is sufficient progress in the performance of the company and the overall profitability of the company is good.

INTEXT QUESTIONS 27.2

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 statement of business with the previous years financial statement.

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

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

27.3 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.

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 Rs10 lakhs and value of inventory is Rs 100,000, then inventory will be 10% of total assets $\left(\frac{10000 \times 100}{100000}\right)$

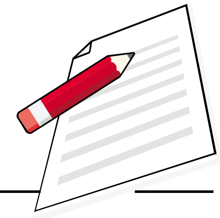
Illustration 3

The balance sheet of Mr Anoop Private (Pvt) Limited (Ltd) and Bansal Private Limited are given below :

Balance Sheet as on 31st December, 2007

Liabilities	Anoop Pvt Ltd Rs	Bansal Pvt Ltd Rs
Preference share capital	120,000	150,000
Equity share capital	140,000	410,000
Reserves and surpluses	24,000	28,000
Long-term loans	110,000	120,000
Bill Payables	7000	1000
Sundry creditors	12000	3000
Outstanding Expenses	15000	6000
Proposed Dividend	10000	90000
	438,000	808,000
Land and Building	80,000	123,000
Plant and Machinery	334,000	600,000
Temporary Investments	5000	40,000
Investment	6000	20,000
Sundry Debtors	4000	13,000
Prepaid expenses	1000	2000
Cash and Bank balance	8000	10,000
	438,000	808,000

Compare the financial position of two companies with the help of common size balance sheet.



Notes

Solution :

Common size Balance Sheet as on 31st December 2007

	Anoop Pvt Ltd		Bansal Pvt Ltd	
	Amount Rs	%	Amount Rs	%
Fixed assets				
Land and Building	80,000	18.26	123,000	15.22
Plant and machinery	334,000	76.26	600,000	74.62
Total Fixed Assets	414,000	94.52	723,000	89.48
Current asset				
Temporary investment	5000	1.14	40,000	4.95
Investment	6000	1.37	20,000	2.48
Sundry Debtors	4000	0.91	13,000	1.61
Prepaid Expenses	1000	0.23	2,000	0.25
Cash and Bank	8000	1.83	10,000	1.25
Total current assets	24000	5.48	85,000	10.54
Total Assets	438,000	100.00	808,000	100.00
Share Capital and Reserves				
Preference share capital	120,000	27.39	150,000	19.80
Equity share capital	140,000	31.96	410,000	50.74
Reserve and surpluses	24,000	5.48	28,000	3.47
Total Capital and Reserves	284,000	64.83	588,000	74.01
Long term loans	110,000	25.11	120,000	14.85
Current liabilities				
Bill Payables	7,000	1.60	1,000	0.12
Sundry creditor	12,000	2.74	3,000	0.37
Outstanding expenses	15,000	3.44	6,000	0.74
Proposed Dividend	10,000	2.28	90,000	11.15
	39,000	10.06	109,000	12.38
Total liabilities	438,000	100.00	808,000	100.00

Interpretation

(i) An analysis of pattern of financing of both the companies shows that Bansal Ltd is more traditionally financed as compared to Anoop Ltd. The former company has depended more on its own funds as is shown by balance sheet. Out of total investment, 74.01% of the funds are proprietory funds and outsiders funds account only for 25.9%. In Anoop Ltd proprietors' fund are 64.83% while the share of outsiders funds is 34.17% which shows that this company has depended more upon outsiders funds.

(ii) Both the companies are suffering from shortage of working capital. The percentage of current liabilities is more than the percentage of current assets in both the companies.

(iii) A close look at the balance sheet shows that investments in fixed assets have been from working capital in both the companies. In Anoop Ltd. fixed assets account for 94.52% of total assets while in Bansal Ltd fixed assets account for 89.48%.

(iv) Thus, both the companies face working capital problem and immediate steps should be taken to issue more capital or raise long term loans to improve working capital position.

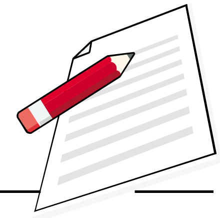
Common size income statement

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

Illustration 4

Following are the income statements of a company for the year ending 31st December 2006 and 2007

	2006 Rs	2007 Rs
Sales	500,000	700,000
Miscellaneous income	20,000	15,000
	520,000	715,000
Expenses		
Cost of sales	330,000	510,000
Office expenses	20,000	30,000
Interest	25000	30,000
Selling expenses	30,000	40,000
	405,000	610,000
Net profit	115,000	105,000
	520,000	715,000



Solution :

Common size Income Statement for the year ending 31st December 2006 and 2007.

	2006		2007	
	Amount Rs	%	Amount Rs	%
Sales	500,000	100.00	700,000	100.00
Less : Cost of sales	330,000	66.00	510,000	72.86
Gross profit	170,000	34.00	190,000	27.14
Operating expenses				
Office expenses	20,000	4.00	30,000	4.29
Selling expenses	30,000	6.00	40,000	5.71
Total operating expenses	50,000	10.00	70,000	10.00
Operating profit	120,000	24.00	120,000	17.14
Miscellaneous income	20,000	4.00	15,000	2.14
Total income	140,000	28.00	135,000	19.28
Less : Non operating expenses	25,000	5.00	30,000	4.28
Net profit	115,000	23.00	105,000	15.00

Interpretation

- The sale and gross profit have increased in absolute figures in 2007 as compared to 2006. But the percentage of gross profit to sales has gone down in 2007.
- The increase in cost of sales as a percentage of sales has brought the profitability from 34% to 27.14%.
- Operating expenses have remained the same in both the years.
- Net profit have decreased both in absolute figures and as a percentage in 2007 as compared to 2006.

Trend percentage analysis (TPA)

The trend analysis is a technique of studying several financial statements over a series of years. In this analysis the trend percentages are calculated for each item by taking the figure of that item for the base year taken as 100. Generally the first year is taken as a base year. The analyst is able to see the trend of figures, whether moving upward or downward.

In brief, the procedure for calculating trends is as :

– One year is taken as a base year which is generally is the first year or last year.

– Trend percentages are calculated in relation to base year

Illustration 5

From the following data relating to Ms Rekha Gupta for the year 2004 to 2007, calculate trend percentages (taking 2004 as base year)

	2004	2005	2006	2007
Net sales	200,000	190,000	249,000	260,000
Less : Cost of goods sold	120,000	117,800	139,200	145,600
Gross profit	80,000	72,000	100,800	114,400
Less : Expenses	20,000	19,400	22,000	24,000
Net profit	60,000	52,800	78,800	90,400

Solution :

Trend percentages

	2004	2005	2006	2007
Net Sales	100	95.0	124.5	130.0
Less : Cost of goods sold	100	98.2	116.0	121.3
Gross profit	100	90.3	126.0	143.0
Less : Expenses	100	97.0	110.0	120.0
Net profit	100	88.0	131.3	150.6

Interpretation

On the whole, 2005 was a bad year but the recovery was made during 2006. In this year there is increase in sales as well as profit.

The figure of 2005 when compared with 2004 reveal that the sales have come down by 5%. However, the cost of goods sold and the expenses have decreased only by 1.8% and 3% respectively. This has resulted in decrease in Net profit by 12%.

The position was recovered in 2006 and not only the decline but also there is positive growth in both 2006 and 2007. Moreover, the increase in profit by 31.3% (2006) and 50.6% (2007) is much more than the increased in sales by 20% and 30% respectively. This shows major portion of cost of goods sold and expenses is of fixed nature.

INTEXT QUESTIONS 27.3

Fill in the blanks with appropriate 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 liability. (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.
- The main parties interested in analysis of financial statement are

  (i) Investor (ii) Management

  (iii) Trade unions (iv) Lenders

  (v) Trade creditors (vi) Employees

  (vii) The 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) Trend analysis (iv) Ratio analysis

  (v) Funds flow analysis (vi) 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 the 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 QUESTIONS

1. State any four tools which are commonly used for analysing and interpreting financial statements.
2. What are the main techniques of financial statement analysis?
3. Briefly explain the parties interested in analysis of financial statements.
4. Write a brief notes on comparative statement, common size statement and trend analysis.
5. The following are the Balance Sheets of Ms Shivani Ltd for the year ending 31st December 2006 and 2007.

Liabilities	2006 Rs	2007 Rs	Assets	2006 Rs	2007 Rs
Equity share capital	200000	330000	Fixed Assets less depreciation	340000	450000
Preference share capital	200000	250000	Stock	40000	50000
Reserve	20000	30000	Debtors	100000	125000
Profit and loss A/c	15000	20000	Bills receivable	20000	60000
Bank overdraft	50000	50000	Prepaid expenses	10000	12000
Creditors	40000	50000	Cash in hand	40000	53000
Provision for taxation	20000	25000	Cash at Bank	10000	30000
Proposed dividend	15000	25000			
	560000	780000		560000	780000

Prepare a comparative balance sheet of the company and study its financial position.

6. The following are the Balance Sheets of Ms Anjani Anand for the year 2006 and 2007. Discuss the financial position of the company in two years with the help of common size Balance Sheet.

Liabilities	2006 Rs	2007 Rs	Assets	2006 Rs	2007 Rs
Share capital	625000	675000	Goodwill	80000	50000
Reserve surplus	352000	352000	Plant	526000	513000
Surplus	175535	59070	Patent	30000	26000
6% debentures	225000	200000	Investment	205000	125000
Accrued interest	3750	3000	Cash at bank	170650	287000
on debenture			Prepaid expenses	3200	4600
Sundry creditors	112000	143000	Debtors	138760	153000
Dividend payable	—	25000	Stock	235800	287670
Taxation provision	8000	48000	Debenture discount	6875	5000
	1401285	1405070		1401285	1405070

ANSWERS TO INTEXT QUESTIONS

Intext Questions 27.1

I. (i) income statement or profit and Loss A/c, posiiton statement or balance sheet.

(ii) analysis and interpretation

(iii) financial statement

(iv) decision making

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

Intext Questions 27.2

(i) financial statement analysis (ii) tool

(iii) comparative statement (iv) balance sheet

(v) comparative

Intext Questions 27.3

(i) Comparative (ii) Comparative

(iii) Trend (iv) base