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Analysis of Financial Statements

Learning objectives :

After studying this chapter, you should be able to understand :

- Meaning definition objectives, nature and characteristics of financial statements
- Objects merits, limitations and process and process of analysis of financial analysis
- Understand process of analysis of financial statements by using techniques of financial statements analysis
- Comparative financial statements :
  - Comparative Balance Sheet - Comparative Statement of Profit and Loss
- Common size dinancial statements :
  - Common Size Balance Sheet - Common Size Statement of Profit and Loss

Of the three steps of accounting process, last step is of summarisation. Under summarisation, similar types of accounting items are collected from different items. This results in summarization of Financial Statements. The object of financial statements is to depict picture of financial position and profitability of the organization. In this manner, financial statements throw light upon the operating results of a business enterprise and its financial position with the help of available information collected systematically at one place. Financial statements are the result of first and second process of accounting, which are prepared with the help of accounting records, accepted accounting principles and conventions. These financial statements are useful for the owners as-well-as for the outside users.

Meaning of Financial Statements :

The end product of financial accounting are the financial statements. These statements contain summarized information about the firm's operations obtained from financial records. Financial statements present the review of financial activities of the organization for a certain period. It is a means of presenting accounting information before internal and external parties. As such the information about the operational profit or loss for a particular period is obtained from the financial statements and the financial position of the organization is known at the end of that period. According to section 2 (40) of Companies Act, 2013 generally a full set of financial statements contain the following:-

1. **Balance Sheet :** It is a statement of assets and liabilities or financial position of an organization at a certain date. It is also called position statement.
2. **Profit and Loss Account :** It shows the net result of business activities for a certain period. It is also known as income statement or statement of profit and loss.
3. **Notes to Accounts and Explanatory Notes :** These are given below the Balance Sheet and statement of Profit & Loss Account. These notes contain detailed description about the items shown there in. Analysed notes are an explanation for the important items related with the accounting policies.
4. **Cash Flow Statement and Segment Report :** These are to be prepared and presented compulsorily according to Accounting Standards 3 and 17 (AS-3 and AS-17) for the following organisations :

(i) Listed Companies, **(ii)** Companies with sales revenue of ₹ 50 crores or more, and **(iii)** Companies which have accepted public deposits of ₹ 10 crore or more. Cash flow statement shows cash in hand, Cash out of hand and cash equivalents.

Whereas financial statements are prepared every year in the prescribed format according to section 129 of the Companies Act 2013 (it does not include Presidential lecture, directors' report and management's opinion and analysis).

Objectives of Financial Statements :

The main objective of these statements is to present a true and fair view of the financial and operational performance and the position of cash flows of an organization for different users, who may be able to take correct financial decisions. These statements are vital source of information for the users; these statements help the users to take proper decisions. The objectives of financial Statements are as under:-

1. To make available such financial data, which are related to financial position of the firm.
2. To reveal operating profits of the firm, which shows effect on its financial position.
3. To provide necessary information for the users of financial statements.
4. To present true and fair picture of the business.
5. To present basis for future activities of the firm.

Nature of Financial Statements

The information of the financial statements is the end result of the following combinations:-

1. Recording business transactions on the basis of authentic evidence or all recorded information is based on evidences.
2. Financial Statements are prepared on the basis of accounting conventions. For examples, due to the convention of conservatism, provision is made in the books for expected future losses, but expected future profits are ignored. On account of this, financial statements become believable and understandable. As such operating results become more authentic.
3. Financial Statements are prepared following accounting conventions. For example, according to the going concern concept, accounts are kept on the assumption that the business will be carried on continuously. On account of this financial statements become more reliable, understandable and comparable.
4. Financial Statements are also affected by personal Judgment. For example, which method of valuation of stock should be followed, this decision will be personal decision of the Management, which affects the financial statements. Thus, personal judgment also plays a vital role in preparing Financial Statements.
5. Financial Statements are important source of financial information, on the basis of which conclusions are drawn about the profitability and financial position of an organization.

Characteristics of Financial Statements :

Financial Statements are indicators of performance efficiency of an organization. The following are the characteristics, which are usually found in Financial Statements :

1. **Sumerization :** Business activities are so large that its users can draw conclusions only by summerising the events. Financial statements infact are conclusions after the process of recording and classification.
2. **Accrual basis :** Generally, business accounts are prepared on accrual basis and not on cash basis.
3. **Expressed in terms of money :** Financial statements are expressesd in terms of money. They are useless in its absence.
4. **Technical Terminology :** Technical terminology for different items is used while preparing these statements.
5. **Based on Assumptions :** These are prepared on this assumption that the particular or specified user is conversant with the process and regulation used in it.
6. **Based on past :** These are based on past data. These are not concerned with future financial processes and regulations.

7. **Based on recognized principles :** Financial statements are prepared on the basis of recognized principles and assumptions under which methods of stock valuation, methods of providing depreciation etc. are used according to recognized principles.

Essentials of Financial Statements :

The Financial statements are important documents of an organisation. These give very useful and valuable information about the profitability and financial position of an enterprise. As such, the following points should be taken into consideration while preparing them :

1. **Intelligible :** The financial statements should be prepared in accordance with the Generally Accepted Accounting Principles that these users may read and understand them easily.
2. **Comparable :** The financial statements should be prepared in such a manner that inter - firm and intra – firm comparsion can be done easily.
3. **Relevant :** The financial statements should contain only relevant information, so that various users can understand them easily.
5. **Factual :** The financial statements should convery factual and accurate information about the position and progress of the organization so that users can assess its true and fair position.
6. **Timeliness :** The financial statements should be prepared and presented during a suitable span of time. Undue delay in presentation reduces its usefulness.

Parties Interested in Financial statements and their Utility

The society and the nation are substantially affected by the activities of every business enterprise. As such many people have interest in financial statements of enterprises. Users of financial statements may be divided in into two groups, internal users and external users.

(A) Internal users :

1. **Shareholders :** They invest in the capital, as such they always have interest in profitability, financial capacity and liquility position of an enterprise. All the information are contained in financial statements.
2. **Management :** Managers are responsible for overall performance of **an** enterprise. Management is responsible for the safety of investments along with profitable use of its resources. As such, they obtain such information from the financial statements, so that they may measure the working efficiency and profit earning capacity of an enterprise. The financial statements for them are as important as hammer and nail for the artisan.
3. **Employees :** Employees will receive bonus on the basis of financial position of the organisation. The financial position of the organization also affects the welfare plans for the employees. As such, they always have interest in knowing financial position of the enterprise.

(B) External users :

1. **Bank and Financial Institutions :** The financial statements are also of great utility for banks and other financial institutions, who provide long term credit facility to the organization, which depends upon its profitability, liquility and solvency, which is obtained from financial statements.
2. **Debenture holders and future investors :** Debenture holders wish to know about the solvency and interest payment capacity of the enterprise, whereas future investors wish to know about the amount of profit, dividends and market position. They all want to know about financial strength of the enterprise, which may be obtained from its financial statements.
3. **Creditors :** They wish to know about liquility and financial strength, which also can be ascertained from the financial statements of the enterprise.
4. **Government & other Departments :** Government wants to know about financial performance from financial statements for making policy decisions and for enactment of Laws, rules and regulations. Other departments of the government, viz, GST department, income tax department, costom duty department etc., and others also need information about sources of revenue etc. use and financial statements for the fulfillment of this purpose.

5. **Researchers and Analysts (or Analysers) :** They also need information from financial statements of the enterprises so as to fulfill their limited objective to analyse and put conclusions before the public and the government.
6. **Trade Associations :** The Chamber of Commerce, the manufacturers associations the non-profit organisations etc., with a view to safe guard the interest of organisations of their respective areas need information. For this they book into financial statements with the objective to find out the trends and conclusions for comparison.
7. **Stock Exchange and Indian Securities Exchange Board :** The financial statements are of great use to above institutions to find out whether the rules framed for the safety of investors are being followed by the organization. They analyse the facts from these financial statements and other information.

Limitations of Financial Statements

The conclusions of financial accounts are given in the financial statements. On the basis of this information more accurate, legitimate and evidential decisions are taken. But the conclusions drawn from such information cannot be regarded final and cent percent accurate. As such the financial statements are also subject to the following limitations, which should be kept in mind while using them for analysis and interpretion.

1. **Historical Facts :** Financial statements are based on historical information, where as most of the users want to know future position . As such financial statements are not very useful.
2. **Based on Estimates :** Financial statements are prepared on the basis of certain accounting principles, conventions, postulates and assumptions, which are also affected by personal gudgement, as such they are not free from bias.
3. **Lack of Qualitative Information :** Financial statements contain information on only those transactions, which are expressed in terms of money. They do not depict those facts which cannot be expressed in terms of money, although they have a great bearing on the financial position of the Business. For example, ability of the management, market position, honesty, are not studied.
4. **Historical Cost :** Financial statements are compiled on the basis of past records, which become historical with the passage of time. They do not show the effect of changes in price level. As such they are like post-mortem.
5. **Not Comparable or Lack of Comparability :** The nature, production capacity, geographical position etc. of two organisations may different, on account of which preparing comparable statements may not be possible.
6. **Hiding Real Position :** On account secret reserves and window dressing the companies hide the real position with certain motives behind it. The data are so presented by accounting manipulation by which the financial position may be shown too good or too bad.
7. **Do not Fulfill Need of all Parties :** These statements do not fulfill the need of all parties having interest in financial statements.

Due to the aforesaid limitations in the present changing situation these statements are neither significant-nor meaningful. How ever, the financial statements are fundamental documents, which furnishe valuable and meaningful information for all concerned and as such have lost no significance.

Analysis of Financial Statements

Only by looking it may be felt that financial statements are groups of figures only, but their significase can not be known till the users (such as management and investors) do not analyse and comment for their objective in particular.

Financial analysis helps in classifying the meaning contained in financial statements. In today circumtances, financial analysis has its own specific significance as a tool for management.

Meaning of Financial Analysis :

Financial statements present a mass of complex data in absolute monetary terms. They hardly reveal about the liquility, solvency and profitability of a business organisation. In financial analysis, the data given in financial statements are classified into simple groups and a comparision of different groups is made with one another to pin point the strong points and the weaknesses of a business. Thus, under financial analysis, first of all an analyst has to choose useful information from financial statements for decision making, then those information are to be arranged in such a manner that important relationships may be revealed and in the end to ascertain conclusions and interpret about such relationships with the help of the techniques of analysis. Thus, it may be said that financial analysis is a method of analyzing financial information, in which useful information is collected from financial statements and relationship is established among them to draw conclusions from them by interpreting in such a manner that the information may be helpful in taking decision.

In the words of Finney and Miller :

"Financial analysis consistst in separating facts according to some definite plan, arranging them in groups according to certain circumstances, and then presenting them in a convenient and easily read and understandable form."

Objectives of Financial Analysis

The interest of the users lie in the analysis of financial statements. As such, the object of analysis of financial statements may be different from the user point of view. For example long terms financiers are concerned with capital structure, future revenue and interest paying capacity of the concern. As such the object of analysis of financial statements will depend upon the fact that for whom analysis is being conducted. The general objectives off analysis are as under :

1. **To Measure Operating Efficiency :** The analysis is conducted on the basis of information given in income statement by means of various techniques of analysis to measure operating efficiency.
2. **To Asses Profitability :** This is also on the basis of information contained in Income statement by using different techniques of analysis.
3. **To Make Inter-Firm and Intra-Firm Comparison :** The analysis of financial statements may be done with the object of comparing results of similar concerns engaged in the same or identical industry. Under intra-firm, comparision may be made by comparing results from year to year of the same concern by self-evaluation.
4. **To Examine Solvency :** Ratio analysis technique of financial analysis can be used to examine short-term and long-term solvency of the organisation.
5. **To Measure Trend :** To measure trend of the financial information of the concern, trend analysis or trend ratio technique can be used.
6. **To Examine Financial Soundness :** Measurement of financial position of the concern may be done by using of various ratios to assess its weaknesses and the strengths.
7. **To Evaluate Progress of Business :** Progress of business and future prospects may be determined by using trend and motivational analysis.
8. **Simple, Brief and Organized Presentation :** The intention of financial analysis is also to present the boring data in simple, brief and organised form.
9. **Helpful in Forecasting :** Effective forecasting, budgeting and planning are possible with the help of historical data.
10. **To Fulfill Needs of Interested Parties :** The various techniques of analysis, financial statements fulfill different necessities of the users.
11. **Judgement or Decision Making :** Scientifically analysis data of is be made for decision making.

Procedure of Financial Analysis

The following is the process of analysing financial statements :

1. **Determination of object and limits of financial Analysis :** First it is necessary to determine the object and limit of financial analysis. For example, the purpose of analysis may be to study the progress of business onlys. Then

only Profit & Loss Account shall be analysed. Similarly, if the object is to study financial position also, then balance sheet will be also analysed. Selection of technique of analysis will depend upon the object and limits of analysis.

2. **Study of Financial Statements :** The next step is to study complete financial data shown in the financial statements to know significance of different items.
3. **Collection of useful Information :** Financial Analyst will collect relevant additional information after studying the financial statements. For example, for the study of future potential, chairman speech, directors report, management report and analysis are to be done.
4. **Reclassification of Information and to Approximate the data :** The data contain in Financial statements should be reclassified according to the object of analysis and the data contained in financial statements should be approximate on the basis of nearest thousand or lakhs in whole numbers. After approximation, the data should be arranged in tabular form.
5. **Comparison :** Absolute data are of no significance. They should be relative in order to make them significant. As such for Inter-firm and Intra-firm comparison, relative figures will be used. For example, to compare various items of financial statements of the same firm may be compared for different years.
6. **Analysis :** Comparable data should be used for analysis according to objectives. For example, Banks and other financial Institution may test the solvency and profitability of a firm. It may be Inter-firm or Intra-firm tests. Similarly the study of the trend of various items of financial statements may also be undertaken.
7. **Interpretation or Drawing Conclusions and Presentation :** Conclusions cannot be drawn without analysis or analysis is useless without drawing Conclusion. As such conclusions should be drawn on the basis of analysed data and then be presented properly only then analysis is useful. In this way, the end product of the Accounting process of financial statements is analysis and presentation, without which recording, classifying and summerizing of business transaction is useless.

Types of Financial Analysis

The analysis of financial statements can be done in four ways :

1. **External Analysis :** External analysis is meant for external users of financial statements. This analysis is done on the basis of published statements since financial analyst cannot approach to various records. This analysis is made by Bankers, Creditors. Researcher and the Government.
2. **Internal Analysis :** When analysis is accomplished by the management of an organisation on the basis of its records, it is called Internal Analysis.

   In the analysis, the analyst has all information (published, unpublished). Thus, it is more authentic and useful for managerial decisions.
3. **Horizontal or Dynamic Analysis :** Under this method every item of financial statements is compared with previous years which is called Intra-firm comparision. For example, the amount of fixed assets of 2016-17 may be compared with figures for 2015-16 & 2014-15. As such it is also known as Dynamic analysis under which various items of one year are compared and measured with the similar items of previous year/years. Under this method the study for the progress and dynamical performance of the organisation is undertaken. The changes may be shown by the following methods-

   (a) Showing percentage increase or decrease in the amount.

   (b) Showing changing by index numbers, which means taking one years figure as base (100) and computing Indices for other years and then comparing the same.

   (c) Actual increase or decrease in the amounts are shown, which means the items of statements for two periods may be compared by putting (+) plus and (-) minus for the changes in amounts. It is a time series analysis. It is useful for long period trend and for planning. Comparing Balance Sheet and Profit & Loss Account or Income statement and trend analysis are the examples of horizontal analysis.

4. **Vertical or static analysis :** Under this analysis, quantitative relationship is established between different items of financial statements for a particular period taking the total as 100. This analysis depicts present relationship on a particular period and do not reveal fluncluations in them. For example, the total of assets side of the Balance sheet is assumed 100 and on this basis percentage for different items of assets side are calculated. It is, therefore, called static analysis, because this analysis does not reveal fluncluations and shows only present relationship. Common size Balance sheet and Profit & Loss account or Income statement are the example of this analysis. Ratio analysis showing mutual relationship between different items of financial statement and that of income statement, is also technique of this analysis. Since the data of one particular period only are taken, it is called Static Analysis.

Both types of analysis, horizontal and vertical are important and required for proper analysis. Both are supplementary to each other and not contradictory to each other.

Different Between Horizontal and vertical Analysis

S.No.	Basis of Difference	Horizontal Analysis	Vertical Analysis
1.	Period	In this analysis the data are required for two or more periods.	In this analysis the data required for one year only.
2.	Usefulness	It is useful for time series analysis.	It is useful in cross sectional analysis.
3.	Component or Items	In this, study is undertaken for tendancy of component for different periods.	In this, study for different items of one period is undertaken.
4.	Comparison	It is one part of comparison.	It is a base for comparison.

Techniques of Financial Analysis

The analytical methods or devices which are used to measure the relationship among various items of financial analysis. The following techniques are usually used at present by an Analyst for analysing financial statements :

1. Comporative Financial Statements
2. Common Size Statements
3. Trend Analysis
4. Ratio Analysis
5. Cash Flow Analysis
6. Fund flow Analysis

All these techniques are not used for all analytical studies. The selection of technique depends upon the object of analysis. For example, an Analyst wishes to test profitability of two Industries in similar trade for a financial year, he will use Ratio-Analysis technique. Other techniques are not suitable for that purpose of these, only first four techniques are required to be studied, since other techniques are not needed under the syllabus.

Limitations of Financial Analysis

Despit many advantages of Financial Statement Analysis, yet has got certain limitations which should be kept in consideration by the users and the analyser. The limitations are as under :-

1. **Only Quantitative Measurement :** The analysis of financial statements is only a quantitative analysis and not a quantitative one. Thus, it is only one side measurement of efficiency evaluation.
2. **Absence of generally Accepted Principles :** Generally Accepted Principles are being framed and made effective on International basis, even then this work is being carried on very slowly. As such, when uniform rules and principles are not adopted, the results of financial statements are not very authentic and consists lack of comparison.

3. **Lack of diagnostive :** Financial analysis only indicates the elements of performance efficiency. It does not offer its diagnosis. It identifies symptoms only.
4. **Limitation of Financial Statements :** Financial Analysis is based on financial statements and these statements also suffer from certain limitations. As such the limitations of financial statements are also the limitations of their analysis. For example, financial statements are based on historical cost, hence there is a question mark on its usefulness in present days.
5. **Do not Reflect Changes in Price Level :** Comparison of figures, statements for two or more years may give misleading result since these statements do not reflect the effect of changes in Price level. For example, to compare cost of production of an enterprise for past five years which are shown in financial statements actual cost may give fallacious result. As such, actual performance cannot be measured correctly with considering the effect of changes in Price Level. On the other hand, if an Analyst keeps in mind the changes in price level while doing financial analysis, the results may be significant and not misleading.

Comparative Financial Statements

Comparative Financial Statements is such a technique of financial analysis in which changes (absolute and /or relative) in the data of items of financial statements are included and presented in the form of statement. It is a comparative study to measure changes in similar individual items of Balance Sheet and statement of Profit & Loss Account for two or more years. In this technique, individual item for one of the two years is taken as base and ratio or percentage of the other similar items is computed for making comparison between them. Thus, Comparative Financial Statements is the study to indicate trend for information of similar items or group of items of financial statements of a business enterprise.

Merits of Comparative Financial Statements :

1. It is an easy and simple presentation of financial data which makes comparison easy.
2. Comparative financial statements indicate the trend of changes in various items which help in forcasting.
3. It is easy to understand the main financial statistics by means of Comparative Financial Statement.
4. Comparative Financial Statements help to know about the health of the enterprise. It indicates the strong points and weak points of the enterprise.
5. With the help of comparative financial statements Intra-firm comparison is possible. The firm's performance can also be tested with the average performance of the Industry.
6. With the help of analysis of changes and information about the trend, forecasting and planning is made easy.
7. Study of comparative financial statements will assist firm's creditors and loan providers to take decision about extension of credit facilities.

Preparation of Comparative Balance Sheet

The comparative balance sheet reveals changes in the amount of Assets, Liabilities, and capital of the firm in absolute terms as well as in percentage or ratio from. These changes means increase and decrease in two or more years are compared with the base year. It is the horizontal analysis of Balance Sheet. The following six columns are drawn for its preparation :

First column : In this column the name of every item or component of balance sheet is written.

Second column : In this column note number is written against every item written in column no.1.

Third column : Amounts of previous year are written in this column.

Fourth column : Amounts of current year are written in this column.

Fifth column : Amount of absolute changes in current year as compared to previous year are written.

Sixth column : Percentage for changes in every item (given in column five) are calculated and the same are written in this column.

$$\text{Percentage change} = \frac{\text{Amount of change for each item as given in column}}{\text{Amount of same item of previous year as given in column}} \times 100$$

The format of Comparative Balance Sheet is as follow:-

Format of Comparative Balance Sheet

Particulars	Note No.	Previous Year ₹	Current Year ₹	Absolute Change (Increase/Decrease) ₹	Percentage Change (Increase/Decrease)
1	2	3	4	5 (4-3)	6 ($\frac{5}{3}$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 (Creditors)	--	--	--	--	--
(c) Other Current Liabilities	--	--	--	--	--
(d) Short-term Provisions	--	--	--	--	--
Total	**--**	**--**	**--**	**--**	**--**
II. ASSETS					
2. Non-Current Assets					
(a) Fixed Assets	--	--	--	--	--
(i) Tangible Assets	--	--	--	--	--
(ii) Intangible Assets	--	--	--	--	--
(b) Non-current Investments	--	--	--	--	--
(c) Long-term Loans and Advances	--	--	--	--	--
3. 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	**--**	**--**	**--**	**--**	**--**

Note :- (1) Absolute change and percentage change will be shown in brackets to reflect negative item. **(2)** Change in remaining items of Balance Sheet not shown separately viz:- Money received against Share Warrants, Deferred Tax Liabilities (Net), Long term provisions, other current liabilities, Capital work-in-progress, Intangible assets under development, Deferred tax assets (Net), other long term liabilities, and other current assets (excluding expenses, outstanding income and advance tax).

Illustration 1 :

From the following Balance Sheets, prepare Comparative Balance Sheet.

Particulars	Note No.	31st March 2017 ₹	31st March 2016 ₹
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital :			
(i) Equity Share Capital		4,00,000	3,00,000
(ii) Preference Share Capital		3,00,000	2,00,000
(b) Reserves and Surplus		--	--
2. Non-Current Liabilities			
(a) Long-term Borrowings		2,00,000	50,000
(b) Long Term Provisions		--	--
3. Current Liabilities			
(a) Trade Payables		1,00,000	75,000
Total		**10,00,000**	**6,25,000**
II. ASSETS			
1. Non-Current Assets			
(a) Fixed Assets		5,40,000	3,60,000
(b) Non-current Investments		40,000	40,000
2. Current Assets			
(a) Trade Receivables		4,00,000	2,00,000
(b) Cash and Cash Equivalents		20,000	25,000
Total		**10,00,000**	**6,25,000**

Solution :

Comparative Balance Sheet as at 31st March, 2016 and 2017

Particulars	Note No.	31 March 2016	31 March 2017	Absolute Change (Increase/Decrease)	Percentage Change (Increase/Decrease)
1	2	3 ₹	4 ₹	5 ₹	6 ₹
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital :		3,00,000	4,00,000	1,00,000	33.33
(i) Equity Share Capital					
(ii) Preference Share Capital		2,00,000	3,00,000	1,00,000	50.00
(b) Reserves and Surplus					
2. Non-Current Liabilities					
(a) Long-term Borrowings		50,000	2,00,000	1,50,00	300.00
(b) Long Term Provisions					
3. Current Liabilities					
(a) Trade Payables (Creditors)		75,000	1,00,000	25,000	33.33
Total		**6,25,000**	**10,00,000**	**3,75,000**	**60.00**

II. ASSETS					
1. Non-Current Assets					
(a) Fixed Assets (Tangible)		3,60,000	5,40,000	1,80,000	50.00
(i) Tangible Assets		40,000	40,000	--	--
2. Current Assets					
(a) Current Investment		2,00,000	4,00,000	2,00,000	100.00
(b) Cash and Cash Equivalents		25,000	20,000	(5,000)	(20.00)
Total		**6,25,000**	**10,00,000**	**3,75,000**	**60.00**

Illustration 2 :

Form the following summarised Balance Sheets of Y Ltd. , prepare Comparative Balance Sheet.

(₹ in Lakhs)

Particulars	Note No.	31st March 2017	31st March 2016
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital :			
(i) Equity Share Capital		50.00	50.00
(ii) Preference Share Capital		15.00	20.00
(b) Reserves and Surplus		18.00	15.00
2. Non-Current Liabilities			
(a) Long-term Borrowings		50.00	40.00
(b) Long Term Provisions		2.00	2.20
3. Current Liabilities			
(a) Trade Payables		14.30	13.00
Total		**149.30**	**140.20**
II. ASSETS			
1. Non-Current Assets			
(a) Fixed Assets		105.00	105.00
2. Current Assets			
(a) Trade Receivables		40.00	31.00
(b) Cash and Cash Equivalents		4.30	4.20
Total		**149.30**	**140.20**

Solution :

Comparative Balance Sheet as at 31st March, 2016 and 2017

Particulars	Note No.	31st March 2016	31st March 2017	Absolute Change (Increase/Decrease)	Percentage Change (Increase/Decrease)
1	2	3 ₹	4 ₹	5 ₹	6 ₹
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital :					
(i) Equity Share Capital		50.00	50.00	--	--
(ii) Preference Share Capital		20.00	15.00	(5.00)	(25.00)

(b) Reserves and Surplus		15.00	18.00	3.00	20.00
2. Non-Current Liabilities					
(a) Long-term Borrowings		40.00	50.00	10.00	25.00
(b) Long Term Provisions		2.20	2.00	(0.20)	(9.09)
3. Current Liabilities					
(a) Trade Payables (Creditors)		13.00	14.30	1.30	10.00
Total		**140.20**	**149.30**	**9.10**	**6.49**
II. ASSETS					
1. Non-Current Assets					
(a) Fixed Assets (Tangible)		105	105	--	--
2. Current Assets					
(a) Current Investment		31.00	40.00	9.00	29.03
(b) Cash and Cash Equivalents		4.20	4.30	0.10	2.38
Total		**140.20**	**149.30**	**9.10**	**6.49**

Comparative Statement of Profit and Loss or Income Statement

Income statement despits particulars of Profit and Loss for a financial year. It is not possible to draw conclusion from the data of a specific period, because it has no comparability. From the comparative study of profit and loss of more than one period, the analyst can draw conclusions for progress of business and for others. Hence, in comparative results from one period to another we can explain the absolute change in figures through percentage change, decrease or increase. It is horizontal analysis of profit and loss account. It is also called as dynamic analysis of Profit & Loss.

Preparation of Comparative Profit and Loss Account or Income Statement

While preparing Comparative Income Statement, the following six columns are to be prepared :

First Column : In this column, all items of Income Statement are written.

Second Column : In this column, Numbers are given against the items in Income Statement.

Third Column : In this column, amounts of previous year are written.

Fourth Column : In this column, the amounts of current year are written.

Fifth Column : In this column, differences in amounts between current period and previous period are recorded.

Sixth Column : In this column, the above difference in column 5 (increase or decrease), expressed as a percentage of previous year's amount, are shown.

$$\text{Percentage change} = \frac{\text{Amount of said item in column fifth}}{\text{Amount of said item in column three}} \times 100$$

Format of Comparative Statement of Profit and Loss or Income Statement

Particulars	Note No.	Previous Year ₹	Current Year ₹	Absolute Change (Increase/Decrease) ₹	Percentage Change (Increase/Decrease)
1	**2**	**3**	**4**	**5 (4-3)**	**6 ($\frac{5}{3}$x 100)**
I. Revenue from Operations	--	--	--	--	--
II. Other Income	--	--	--	--	--
III. Total Revenue (I + II)					
IV. Expenses					
(a) Cost of Materials Consumed	--	--	--	--	--
(b) Purchase of Stock-in-Trade	--	--	--	--	--
(c) Change in Inventories of	--	--	--	--	- -

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	**--**	**--**	**--**	**--**	**--**
VIII. Profit after Tax (V-VI)	**--**	**--**	**--**	**--**	**--**

Note :-

(1) Absolute change and percentage change will be shown in brackets to reflect negative item.

(2) Material consumed = opening stock of raw materials + purchases – closing stock of raw materials.

(3) Purchase of stock - in - trade = Net purchase of goods for resale minus purchase return.

(4) Revenue from operations : Sales (net of returns), Sale of scap, receipts from services. If finance company then accured Interest, dividend and service changes.

(5) In other income, income from non-trading activities included.

Illustration 3 :

From the following information, prepare Comparative Income Statement.

Particulars	31 March 2016 ₹	31 March 2017 ₹
1	2	3
Revenue from Operations (Sales)	4,00,000	6,00,000
Purchase of Stock-in-Trade (net Purchase)	2,50,000	3,50,000
Change in Inventories of finished Goods, Work-in-Progress and Stock in trade	60,000	60,000
Other Expenses (% of cost of revenue from Operations)	10%	10%
Tax	30%	30%

Solution :

Comparative Income Statement for the year ended 31st March 2016 & 2017

Particulars	Note No.	31 March 2016	31 March 2017	Absolute Change (Increase/Decrease)	Percentage Change (Increase/Decrease)
1	2	3 ₹	4 ₹	5 (4-3) ₹	6 ($\frac{5}{3}$x 100) ₹
I. Revenue from Operations	--	4,00,000	6,00,000	2,00,000	50.00
II. Total Revenue	**--**	**4,00,000**	**6,00,000**	**2,00,000**	**50.00**
III. Expenses					
(a) Purchase of Stock-in-Trade	--	2,50,000	3,50,000	1,00,000	40.00
(b) Change in Inventories of Stock-in-Trade	--	60,000	60,000	--	--

(c) Other Expenses	--	31,000	41,000	10,000	32.26
Total Expenses		3,41,000	4,51,000	1,10,000	32.26
IV. Profit before Tax (II-III)	--	59,000	1,49,000	90,000	152.54
V. Less : Income Tax	--	17,700	44,700	27,000	152.54
VI. Profit after Tax (IV-VI)	**--**	**41,300**	**1,04,300**	**63,000**	**152.54**

Note :-

Cost of Revenue from operations (cost of goods sold = purchases + change in inventories

Hence for 2015-16 other expenses 2,50,000 + 60,000 = 3,10,000 x 10% = ₹ 31,000

For 2016-17 other expenses 3,50,000 + 60,000 = 4,10,000 x 10% = ₹ 41,000

Illustration 4 :

Following information is extracted from Statement of Profit & Loss of Z Ltd. Prepare Comparative Income Statement.

Particulars	31 March 2016 ₹	31 March 2017 ₹
1	2	3
Revenue from Operations	50,00,000	70,00,000
Employees Benefit Expenses	5,00,000	6,00,000
Depreciation and Amortisation Expenses	1,00,000	1,20,000
Purchase of Stock-in-Trade	25,00,000	30,00,000
Change in Inventories of Stock-in-Trade	1,50,000	2,00,000
Other Expenses - Tax Rate 30%	2,00,000	3,00,000

Solution :

Comparative Income Statement
for the year ended 31st March, 2017

Particulars	Note No.	Previous Year	Current Year	Absolute Change (Increase/Decrease)	Percentage Change (Increase/Decrease)
1	2	3 ₹	4 ₹	5 (4-3) ₹	6 ($\frac{5}{3}$ x 100) ₹
I. Revenue from Operations	--	50,00,000	70,00,000	20,00,000	40.00
II. Total Revenue	**--**	**50,00,000**	**70,00,000**	**20,00,000**	**40.00**
III. Expenses					
(a) Purchase of Stock-in-Trade	--	25,00,000	30,00,000	5,00,000	20.00
(b) Change in Inventories of Stock-in-Trade	--	1,50,000	2,00,000	50,000	33.33
(c) Employee Benefit Expenses	--	5,00,000	6,00,000	1,00,000	20.00
(d) Depreciation and Amortisation Expenses	--	1,00,000	1,20,000	20,000	20.00
(e) Other Expenses	--	2,00,000	3,00,000	1,00,000	50.00
Total Expenses		**34,50,000**	**42.20,000**	**7,70,000**	**22.32**
IV. Profit before Tax (II-III)	--	15,50,000	27,80,000	12,30,000	79.35
V. Less: Tax @30%	--	4,65,000	8,34,000	3,69,000	79.35
VI. Profit after Tax (IV-VI)	**--**	**10,85,000**	**19,46,000**	**8,61,000**	**79.35**

Common Size Financial Statements

Common size financial statements are those which show the financial data in vertical form as percentages. Under this method the value of every item of Balance Sheet and Profit and Loss Account (Income statement) is written. Then, these values of individual items are expressed as percentages in relation to respective totals. The items of Profit & Loss Account are expressed as percentages to total income from business activities. Then the individual items of Balance sheet are also presented as percentages, and a Common base is ready for comparison. The financial statements prepared in this manner are called Common Size Financial Statements. Such statements may be prepared for one or two or more than two years. Generally, the vertical analysis is used for inter-firm comparison under which the values of one period are compared with two or more periods. If the Common size statements are prepared only for one company for two or more years this is intra-firm comparison in which values of one period are compared with the values of another period. This is useful for trend analysis.

Common Size Balance Sheet :

Under this items of assets and liabilities sides are presented as percentage to total assets/liabilities. The percentage for items of assets side are calculated taking total assets as 100. Similarly the percentages of items on liabilities side are computed taking total of liabilities side as 100. If this is prepared for more than one year then the trend for each item can be measured. If this is prepared for different firms of the same Industry, it will enable the firm to assess its relative financial soundness, which may help in good financial planning. It is also called 100 percent statement.

Objects of Common Size Balance Sheet :

(1) To analyse change in every item of Balance Sheet.

(2) To measure the trend in each item of assets and liabilities.

(3) To measure the relative financial soundness for different firms in the same industry.

Preparation of common size Balance Sheet :

The following columns are drawn for preparing common-size Balance Sheet.

First column : In this column, items of Balance Sheet are given.

Second Column : In this column, note number given against the item is given.

Third Column : In this column, amounts of each item (assets/liabilities) of previous year are given.

Fourth Column : In this column, amounts of each item (assets/liabilities) of current year are given.

Fifth Column : In this column, percentage relation of each item of previous year to total of previous year Balance Sheet, which is taken as 100 are given.

Sixth Column : In this column, percentage relation of each item of current year Balance Sheet to total of current year of Balance Sheet, which is taken as 100 are given.

For example Total of assets side ₹ 10,00,000 and out of non-current assets the amount of fixed assets is ₹ 4,00,000, then

$$\frac{4,00,000}{10,00,000} \times 100 = 40\%$$ will be written against Fixed Assets.

Note:

1. When comparison is made between two separate firms, amount of each firm is shown separately in column 3 & 4 respectively.
2. If it is prepared for current year figures of a single firm, then column 3 & 5 will not be given.

Common Size Balance Sheets

Particulars	Note No.	Absolute Amount ₹		Percentage of Balance Sheets Total	
		Previous Year	Current Year	Previous Year	Current Year
1	2	3	4	5=(3/total x100)	5=(4/total x100)
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 (Creditors)	--	--	--	--	--
(c) Other Current Liabilities	--	--	--	--	--
(d) Short-term Provisions	--	--	--	--	--
Total		**--**	**--**	**--**	**--**
II. ASSETS					
2. Non-Current Assets					
(a) Fixed Assets	--	--	--	--	--
(i) Tangible Assets	--	--	--	--	--
(ii) Intangible Assets	--	--	--	--	--
(b) Non-current Investments	--	--	--	--	--
(c) Long-term Loans and Advances	--	--	--	--	--
3. 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		**--**	**--**	**--**	**--**

Note:

1. When comparison is made for two firms, then in column 3 amounts of first firm, in column 4 amounts of second firm, in column fifth percentage change of second firm will be given.
2. If analysis is made for current year items of a firm then column 3 and 5 will not be given.

Illustration 5 :

From the following information ABC Ltd. prepare Common Size Balance Sheet.

Balance Sheets
As On 31st March 2016 and 2017

Particulars	Note No.	31 March 2016 ₹	31 March 2017 ₹
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital :	--	4,00,000	8,00,000
(i) Equity Share Capital	--		
(b) Reserves and Surplus	--	2,00,000	3,00,000
2. Non-Current Liabilities			
(a) Long-term Borrowings	--	6,00,000	8,00,000
3. Current Liabilities			
(a) Trade Payables (Creditors)	--	4,00,000	1,00,000
Total		**16,00,000**	**20,00,000**
II. ASSETS			
2. Non-Current Assets			
(a) Fixed Assets (Tangible)		10,00,000	17,00,000
3. Current Assets			
(a) Cash and Cash Equivalents		6,00,000	3,00,000
Total		**16,00,000**	**20,00,000**

Solution :

Common Size Balance Sheets
As On 31st March 2016 and 2017

Particulars	Note No.	Absolute Amount ₹		Percentage of Balance Sheet Total	
		31 March 2016	31 March 2017	31 March 2016	31 March 2017
1	2	3	4	5=(3/total x100)	5=(4/total x100)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital :	--	4,00,000	8,00,000	25.00	40.00
(b) Reserves and Surplus	--	2,00,000	3,00,000	12.50	15.00
2. Non-Current Liabilities					
(a) Long-term Borrowings	--	6,00,000	8,00,000	37.50	40.00
3. Current Liabilities					
(a) Trade Payables	--	4,00,000	1,00,000	25.00	5.00
Total		**16,00,000**	**20,00,000**	**100.00**	**100.00**
II. ASSETS					
1. Non Current Assets					
(a) Fixed Assets (Tangible)	--	10,00,000	17,00,000	62.50	85.00
(b) Non-current Investments	--	--	--	--	--
2. Current Assets					
(a) Cash and Cash Equivalents	--	6,00,000	3,00,000	37.50	15.00
Total		**16,00,000**	**20,00,000**	**100.00**	**100.00**

Illustration 6 :

Prepare Common Size Balance Sheet of A and C Ltd. from the following Balance Sheets.

Balance Sheets

As On 31st March 2016 and 2017

Particulars	Note No.	31 March 2017 ₹ A Ltd.	31 March 2017 ₹ C Ltd.
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital :	--	3,00,000	5,00,000
(b) Reserves and Surplus	--	1,00,000	2,00,000
2. Non-Current Liabilities			
(a) Long-term Borrowings	--	2,00,000	3,00,000
3. Current Liabilities			
(a) Short Term Borrowings	1	50,000	1,00,000
(b) Trade Payables	--	1,50,000	2,50,000
(c) Other Current Liabilities	--	2,50,000	1,50,000
(d) Short-term Provisions	--	1,50,000	1,00,000
Total		**12,00,000**	**16,00,000**
II. ASSETS			
1. Non-Current Assets			
(a) Fixed Assets (Trangible) (Net)		5,00,000	6,00,000
(b) Non-current Investments		1,00,000	2,00,000
2. Current Assets			
(a) Inventories		2,00,000	3,00,000
(b) Trade Receivables		1,50,000	2,50,000
(c) Cash and Cash Equivalents		1,00,000	2,00,000
(d) Other Current Assets	2	1,50,000	50,000
Total		**12,00,000**	**16,00,000**

Notes to the Accounts :

Particulars	31 March 2017 ₹ A Ltd.	31 March 2017 ₹ C Ltd.
1. Long-term Borrowings		
(a) Bank	75,000	1,00,000
(b) Debentures	1,25,000	2,00,000
	2,00,000	3,00,000
2. Other Current Assets		
(a) Prepaid Expenses	1,50,000	50,000

Solution :

Common Size Balance Sheets
As On 31st March 2017

Particulars	Note No.	Absolute Amount ₹		Percentage of Balance Sheet Total	
		31 March 2017	31 March 2017	31 March 2017	31 March 2017
1	2	A Ltd. 3	C Ltd. 4	A Ltd. 5	C Ltd. 6
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital :	--	3,00,000	5,00,000	25.00	31.25
(b) Reserves and Surplus	--	1,00,000	2,00,000	8.33	12.50
2. Non-Current Liabilities					
(a) Long-term Borrowings					
Bank Loan	--	75,000	1,00,000	6.25	6.25
(b) Debentures	--	1,25,000	2,00,000	10.42	12.50
3. Current Liabilities					
(a) Short term Borrowings	--	50,000	1,00,000	4.17	6.25
(b) Trade Payables (Creditors)	--	1,50,000	2,50,000	12.50	15.63
(c) Other Current Liabilities	--	2,50,000	1,50,000	20.83	9.37
(d) Short-term Provisions	--	1,50,000	1,00,000	12.50	6.25
Total		**12,00,000**	**16,00,000**	**100.00**	**100.00**
II. ASSETS					
1. Non-Current Assets					
(a) Fixed Assets (Tangible) (Net)		5,00,000	6,00,000	41.67	37.50
(b) Non-current Investments		1,00,000	2,00,000	8.33	12.50
2. Current Assets					
(a) Inventories		2,00,000	3,00,000	16.67	18.75
(b) Trade Receivables		1,50,000	2,50,000	12.50	15.63
(c) Cash and Cash Equivalents		1,00,000	2,00,000	8.33	12.50
(d) Other Current Assets	2	1,50,000	50,000	12.50	3.12
(e) Prepaid Expenses					
Total		**12,00,000**	**16,00,000**	**100.00**	**100.00**

Common-size statement of Profit & Loss (Income Statement)

In this statement, revenue from operations (Net sales) is taken as 100 and each item on expenses side is shown as its percentage. For example, net sales are ₹ 10,00,000 and purchase of stock-in-trade is ₹ 5,00,000, then purchase of stock-in-trade is 50 percent of net sales.

Objectives of Common-size Income statement :

1. To analyse change in individual items of income statement.
2. To know the efficiency of business.
3. To study the trend of each item of income and expenses.

Preparation Common Size Statements of Profit and Loss :

It is prepared having six columns as follows.

First Column : In this column, name of each item of revenue and expenses **is** written.

Second Column : In this column, note number given against each item of **i**ncome statement is written.

Third Column : In this column, amount of each item of previous year is written. If it is prepared for Comparison of two firms, then amount of each item of a firm is written against the names of items.

Forth Column : In this column, amounts of current year are written. If the statement is prepared for comparison between two firms, then amount of each item of second firm is written against the name of item.

Fifth Column : In this column, percentage of each item of income statement of previous year to revenue form operations (sales) is written.

Sixth Column : In this column, percentage of each item of income statement of current year to revenue from operations (Sales) is written.

Note :

1. When there is comparison between two firms in column 3 & 4, amounts of firms are shown and in column 5 & 6 taking sales as 100 for each firm separately, percentage of each item is written.
2. If calculation is made for current years figure of a firm then column 3 & 5 will not prepared.

Format of Common-Size Statement of Profit and Loss

Particulars	Note No.	Absolute Amount ₹		Percentage of Revenue from Operations	
		Previous Year	Current Year	Previous Year	Current Year
1	2	3	4	5	6
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 finished Goods, Work-in-progress and Stock-in-Trade		--	--	--	--
(d) Employees Benefit Expenses		--	--	--	--
(e) Financial 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)		--	--	--	--

Note:

1. If comparison is made between two firms, then in column 3 values of first firm, in column 4 value of second firm, in column 5 percentage of first firm and in column 6 percentage of second firm will be given.
2. When analysis of current years items of a firm is done then column 3 & 5 will not prepared.

Illustration 7 :

Profit and Loss Accounts for the year ending 31st March 2016 & 2017 of A Ltd. are given below. Prepare Common size statement of Profit and Loss.

Statement of Profit and Loss of A Ltd.
for the year ending 31st March, 2016-17

Particulars	Note No.	31 March 2017 ₹	31 March 2016 ₹
Income			
I. Revenue from Operations (Net Sales)		12,00,000	10,00,000
II. Expenses		--	--
(a) Purchases of Stock in Trade		8,00,000	6,00,000
(b) Change in Inventories of finished Goods, Work-in-progress and Stock-in-Trade		1,00,000	1,00,000
(c) Depreciation and Amortisation Expenses		1,00,000	1,20,000
(d) Other Expenses		50,000	80,000
Total Expenses		**10,50,000**	**9,00,000**
III. Profit Before Tax (I - II)		1,50,000	1,00,000
IV. Less : Income Tax		45,000	30,000
V. Profit after Tax (III-IV)		**1,05,000**	**70,000**

Solution :

Common-Size Statement of Profit and Loss
for the year ended 31st March 2016 and 2017

Particulars	Note No.	Absolute Amount ₹		Percentage of Revenue from Operations Total	
		31 March 2016	31 March 2017	31 March 2016	31 March 2017
I. Revenue from Operations		10,00,000	12,00,000	100.00	100.00
II. Total Revenue (I + II)		**10,00,000**	**12,00,000**	**100.00**	**100.00**
III. Expenses					
(a) Purchases of Stock-in-Trade		6,00,000	8,00,000	60.00	66.67
(b) Change in Inventories of finished Goods, Work-in-Progress and Stock-in-Trade		1,00,000	1,00,000	0.00	8.33
(c) Depreciation and Amortisation Expenses		1,20,000	1,00,000	12.00	8.33
(d) Other Expenses		80,000	50,000	8.00	4.17
Total		**9,00,000**	**10,50,000**	**90.00**	**87.50**
IV. Profit Before Tax (III-IV)		1,00,000	1,50,000	10.00	12.50
V. Less : Income Tax		30,000	45,000	3.00	3.75
VI. Profit after Tax (V-VI)		**70,000**	**1,05,000**	**7.00**	**8.75**

Illustration 8 :

From the following Statement of Profit and Loss of Y and Z Ltd., prepare Common-size statement of Profit and Loss.

Particulars	Note No.	31 March 2017 ₹	31 March 2017 ₹
		Y Ltd.	Z Ltd.
Income			
I. Revenue from Operations		18,00,000	20,00,000
II. Other Income		50,000	60,000
III. Total Revenue (I + II)		**18,50,000**	**20,60,000**

IV. Expenses			
(a) Purchases of Stock-in-Trade		10,00,000	12,00,000
(b) Change in Inventories of finished Goods, Work-in-progress and Stock-in-Trade		2,00,000	3,00,000
(c) Employees Benefit Expenses		2,50,000	1,60,000
(d) Other Expenses	2	2,00,000	1,00,000
Total Expenses		**16,50,000**	**17,60,000**
V. Profit before Tax (I - II)		2,00,000	3,00,000
VI. Less : Income Tax		60,000	90,000
VII. Profit after Tax (III - IV)		**1,40,000**	**2,10,000**

Notes to the Accounts :

Particulars	31 March 2017 ₹ Y Ltd.	31 March 2017 ₹ Z Ltd.
Revenue from Operations (Sales)	18,20,000	20,30,000
Less : Returns	20,000	30,000
	18,00,000	20,00,000
Other Expenses		
(a) Administrative Expenses	1,50,000	80,000
(b) Miscellaneous Expenses (Non Operative)	50,000	20,000
	2,00,000	**1,00,000**

Solution :

Common-Size Statement of Profit and Loss for the year ended 31st March 2017

Particulars	Note No.	Absolute Amount ₹		Percentage of Revenue from operations	
		Y Ltd.	Z Ltd.	Y Ltd.	Z Ltd.
I. Revenue from Operations (Sales) less returns	1	18,00,000	20,00,000	100.00	100.00
II. Other Income		50,000	60,000	2.77	3.00
III. Total Revenue (I+II)		**1,85,000**	**20,60,000**	**102.77**	**103.00**
IV. Expenses					
(a) Purchases of Stock-in-Trade		10,00,000	12,00,000	55.55	60.00
(b) Change in Inventories of finished Goods, Work-in-progress and Stock-in-Trade		2,00,000	3,00,000	11.11	15.00
(c) Employees Benefit Expenses		2,50,000	1,60,000	13.89	8.00
(d) Other Expenses	2				
Administrative Expenses		1,50,000	80,000	8.33	4.00
Miscellaneous expenses (Non Operative)		50,000	20,000	2.78	1.00
Total Expenses		**16,50,000**	**17,60,000**	**91.66**	**88.00**
V. Profit Before Tax (III - IV)		2,00,000	3,00,000	11.11	15.00
VI. Less : Income Tax		60,000	90,000	3.33	4.50
VII. Profit after Tax (V-VI)		**1,40,000**	**2,10,000**	**7.78**	**10.50**

Trend Analysis

It is a method to study financial position of a business on the basis of changes in individual items of financial statements during the period of study in comparison with a particular year. It is necessary to study the data for number of years and analyse them with the object of studying trend of progress or regress of an enterprise. For this purpose, the percentage increase or decrease in every item of financial statement shall be expressed in terms of percentage on the basis of one year(base year) for the same item. Thus by this method, it is possible to test the working efficiency and performance for a number of years of an enterprise. The following three methods are used for analysis of trend of the business.

(i) Trend Percentages : Under this method first of all the inform ation of financial statements of number of years are tabulated. Then increase or decrease of other years is measured taking any one years figure as base. Generally, first year is taken as base year. Thereafter, percentages for increases or decreases in values are calculated :

$$\text{Percentage Increase/Decrease taking value of base year as 100} = \frac{\text{Increase/Decrease in related year (absolute figure)}}{\text{Related value of Base year}} \times 100$$

Illustration 9 :

Following is the information of an enterprise with regard to revenue from operations. Taking as 2012-13 base, calculate trend percentage for measuring the change.

Year	2012-13	2013-14	2014-15	2015-16	2016-17
Income from Operation (in Lakh or Sales ₹)	10	12	9	16.5	18

Solution : **Statement showing Trend of Revenue from Operations**

Year	Net Sales (in Lakh ₹)	Increase or decrease in comparasion to base Year	Increase or decrease in percentage comparasion to base Year
2012-13	10	--	--
2013-14	12	2.00	20%
2014-15	9	(1.00)	(10%)
2015-16	16.5	6.50	65%
2016-17	18.0	8.00	80%

$$\text{Percentage Increase/Decrease taking 2012-13 as base} = \frac{\text{Absolute Increase in any year or decrease}}{\text{Value of Base year}} \times 100$$

For 2013-14 $= \frac{2}{10} \times 100$ or 20% 2014-15 $= \frac{(1.00)}{10} \times 100 = (10\%)$ and so on

Any increase or decrease in the value of each item, as compared to previous year, we cannot draw any conclusion by anaylsing the items of financial statement of trend percentages the change can be understood.

2. Trend Ratio Method : Usually comparison is made with the help of Percentage Trend method. Sometimes trend ratio method may be used for this purpose.

$$\text{Trend Ratio} = \frac{\text{Current year's value of item}}{\text{Base year's value of same item}}$$

In this manner the ratios ascertained are like indices in statistics. On the basis of these data an analyst can analyse and interpret the change in various items.

Illustration 10 :

Calculate trend ratios taking 2012-13 as base for various items of Profit & Loss Account. (in lakh ₹)

Year	2012-13	2013-14	2014-15	2015-16	2016-17
Net Sales	50	52	55	58	65
Purchases of Stock (₹)	25	26	28	30	35
Profit before tax	2	2.5	3	2.5	4

Solution :

(Base Year 2012-13) **Calculation of Trend Ratio** (in lakh ₹)

Year	Net Sales		Purchase of Stock-in-trade		Profit/Loss (Before Tax)	
	Amount ₹	Trend Ratio	Amount ₹	Trend Ratio	Amount ₹	Trend Ratio
2012-13	50	100	25	100	2.0	100
2013-14	52	104	26	104	2.50	125
2014-15	55	110	28	112	3.0	150
2015-16	58	116	30	120	2.5	125
2016-17	65	130	35	140	4.0	200

On the basis of these ratios a financial analyst can measure and analyse the change in the items of Profit & Loss Account.

3. Graphic or Diagrammatic Presentation : The trend can be presented by graph and diagram also. Such presentation is possible for two or more related items. Normally, shareholders of companies since are not the students of commerce. Companies resort to graphic or diagramatic presentation of its progress, so that the shareholders may easily and conveniently understand the progress of the company.

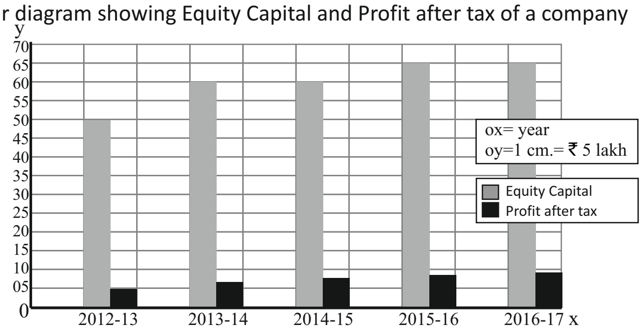
Illustration 11 :

Present the following information of a company regarding equity share capital and profit after tax by preparing bar diagrams and also through graph.

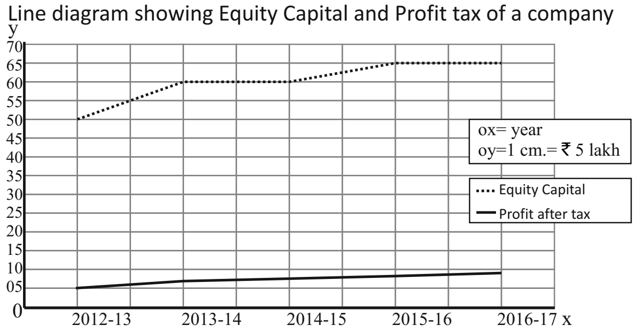
Year	Equity Capital ₹	Profit after Tax ₹
2012-13	50,00,000	5,00,000
2013-14	60,00,000	7,00,000
2014-15	60,00,000	7,50,000
2015-16	65,00,000	8,00,000
2016-17	65,00,000	9,00,000

Solution :

Bar diagram showing Equity Capital and Profit after tax of a company



Line diagram showing Equity Capital and Profit tax of a company



Uses of Trend Analysis

1. Since the data for more than two years are presented, one can easily judge the direction of change.
2. When trend is presented by means of graphs/diagrams, an ordinary person can also know the trend of various items.
3. Presentation of financial statement items in brief is more useful for a layman.

Limitations of Trend Analysis :

While using this method for analysis , the following limitations of the method must be kept in view :-

1. Trend percentages or trend ratios are based on some base year. If base year selected is not a normal year, the results of analysis will be fallacious and wrong.
2. When base year for comparison is not uniform the results of analysis will be contradictory. As such if financial information furnished is not based upon accepted accounting principles or are based on different assumptions, conclusions obtained will be fallacious.
3. Study of trend of one item only is not important, unless for relative comparison trend of other items is not known, so that comparison is made after establishing relationship between them.
4. The study of trend percentages will only reveal absolute and relative change. The test of change in basic data is also vital.

Summary

Financial Statements : Financial statements are the end products of financial accounting, the object of which is to find out financial position of an enterprise on certain data and to obtain the results of activities for certain time period.

A set of Financial Statements : According to section 2(40) of the Companies Act, 2003 financial statements comprise of Balance Sheet, Profit & Loss Account or Income Statement, Accounting Notes, and cash flow statement.

Features of financial Statements : • Summary of Business Activities • Expressed in terms of Money • Prepared on accrual basis • Based on Generally Accepted Accounting Principles • Based on Past

Users of financial Statements :

• **Internal users :** Shareholders, Management, Employees

• **External users :** Banks, Financial Institutions, Debentureholders, Creditors, Future Investors, Government, Researchers, Trade Associations, SEBI etc.

Limitations of Financial Statements : • Based on historical facts • Lack of qualitative information • Lack of comparability • Real position not disclosed • Not unprejudiced • Historical cost or no consideration of changes in price level • Do not consider need of all parties

Financial Analysis : It is the process of establishing relationship between different components of financial statements so that the financial position and performance of an enterprise could be ascertained.

Objectives of Financial analysis : • Assessment operational efficiency • Measurement of profitability

• Assistance in inter-firm and intra-firm comparison • Measurement of liquidity • Assessment of financial soundness • Assessment of business progress • Measuring of trend • Helpful in forecasting.

Limitations of Financial Analysis : (1) It is only a quantitative study (2) Lack generally Accepted Principles (3) Lack of Diagonsis (4) No consideration of price level changes (5) Limitations of financial statements are also the limitations of financial analysis.

Types of financial Analysis : (1) External analysis (2) Internal analysis
(3) Horizontal analysis (4) Vertical analysis

Technique of Financial Analysis :

Comparative Balance Sheet : It is a horizontal analysis under which each and every item of Balance Sheet for more than one year is compared to shwo increase or decrease in absolute as-well-as relative figure and in percentage terms.

Comparative Profit & Loss or Income Statement : It is prepared to compare the change in results of more than one period in absolute figure and in relative percentages.

Common-Size Balance Sheet : In this technique total of assets or liabilities are taken as base (100) and percentages for each item of asset and that of liabilities sides are computed. It is vertical analysis and also called 100% Balance Sheet.

Common-Size Profit & Loss (Income Statement) : Income from business activities i.e. net sales is treated as 100 and percentages for each item of Statement of Profit & Loss are calculated from net sales.

Trend Analysis : Percentages or ratios for different years of an item are calculated taking any one year (usually first)as base to enable comparison for subsequent years. Trend can also be presented in the form of graph or diagram to make comparison easy and simple.

Glossary

- **Horizontal Analysis :** It is the study of change in each item of financial statement.
- **Vertical Analysis :** It is the analysis of the relationship between different components of financial statements.
- **Inter-firm Comparison :** Inter-firm comparison refer to comparison financial statements of two or more firms of the same industry.
- **Intra-firm Comparison :** It refers to comparison of the financial statements data of two or more years of the same firm.
- **Shareholders Fund :** It is fund of shareholders of a Company. It comprises of Share Capital, reserves and surplus, amount receivable against share warrant etc.
- **Non-Current Liabilities :** According to schedule III of Companies Act, 2013, these are long term liabilities e.g. Long term loan, deferred net tax liability, other, long term liabilities and long term prevision etc.
- **Current Liabilities :** According to schedule III of Companies Act, 2013, liabilities which are payable during one operating cycle period are called current liabilities. Sundry creditors, bills payable, short term loans and short term provision etc.
- **Non-Current Assets :** According to schedule III of Companies Act, 2013, it denotes assets which are not current assets i.e. fixed assets. For example, land & building, plant & machinery, furniture, office equipment and loan term investments etc.
- **Tangible Assets :** Those fixed assets which form can be seen and touched, such as office equipment, plant, land & building etc.
- **Intangible Assets :** Those assets which do not have physical form or which can be not seen and cannot be touched goodwill, trademark, patent, knowhow, computer software etc.
- **Current Assets :** According to schedule III of Companies Act, 2013, it refer to such trade items which are realizable within 12 months period or receivable during one financial year. such as, Cash Bank Balance, Short term Investments, Stock of goods, Debtors, B/R. Short term loan, advance etc.

Questions for Exercise

Multiple Choice Questions :

1. Which tool or technique is used for horizontal analysis :
   (A) Balance Sheet (B) Comparative Statements & Trend Analysis
   (C) Common-Size Income Statement (D) Common-Size Balance Sheet
2. In horizontal analysis financial statements of .... according period are necessary :
   (A) Two or more (B) Only one
   (C) (A) and (B) both (D) None of the Above
3. Inter-firm comparison is also called..........
   (A) Time series Analysis (B) Trend Analysis
   (C) Cross sectional Analysis (D) All the Above
4. The most commonly used tools for financial analysis are :
   (A) Ratio Analysis (B) Horizontal Analysis
   (C) Vertical Analysis (D) All the Above
5. In Common-Size Income Statement, various items are presents as a percentage of.........
   (A) Revenue from operations (B) Gross Sales
   (C) Net Profit (D) Gross profit
6. Common-Size Balance Sheet is also called.........
   (A) Percentage Balance sheet (B) Percentage Income Statement
   (C) Statement of absolute figures (D) None of the above
7. Cost of goods sold =
   (A) Purchase +Direct expenses
   (B) Opening Stock of material+ purchases of material + direct expenses-closing stock of materials
   (C) Opening Stock of material + purchases of material & closing stock of materials
   (D) None of the above
8. The Comparative Balance Sheet persents.........changes between each item of balance sheet :
   (A) Relative (B) Absolute
   (C) Absolute & Relative (D) None of the above
9. In Common-Size Balance Sheet, total of equity and liabilities are assumed to be equal to :
   (A) 1 (B) 100 (C) 10 (D) 1000
10. Vertical Analysis is known as :
    (A) Structural Analysis (B) Static Analysis
    (C) Dynamic Analysis (D) None of the above

Very Short Answer Type Questions :

1. Explain the meaning of financial Statement.
2. As per Companies Act, 2013, what are included in a full set of financial statements, write only names.
3. Write any two nature of financial statements.
4. Write any two characteristics of financial statements.
5. Write any two essentials of financial statements.
6. How financial statements are affected by personal judgement.
7. Write any four names of external users of financial statements.

8. Write any four limitations of financial statements.
9. Explain the meaning of financial statements .
10. Write names of types of financial analaysis.
11. Explain four differences between horizontal and vertical anlaysis.
12. What is meant by Comparative Balance Sheet?
13. What is meant by Comparative Income Statement?
14. What is meant by Common-Size Balance Sheet?
15. What is meant by Common-Size Income Statement?
16. What is meant by Trend Analysis?

Short Answer Type Questions :

1. Narrate any four characteristics of financial statements.
2. Write down names of various techniques of financial analysis.
3. Write a format of Comparative Balance Sheet.
4. Prepare Comparative Income Statement from the following informations :

Particulars	Note No.	31 March 2016 ₹	31 March 2017 ₹
Revenue		20,00,000	30,00,000
Other income		4,00,000	3,60,000
Expenses		12,00,000	21,00,000

Ans. : Percentage change 50%, (10%), and 75%

5. From the following information, prepare Common-Size Statement of Profit and Loss.

Particulars	Note No.	31 March 2016 ₹	31 March 2017 ₹
Revenue from operations		20,00,000	36,00,000
Total Expenses		12,00,000	24,00,000
Tax rate		30%	30%

Ans. :

	Percentage of revenue from operations	
	2015-16	**2016-17**
Total Expenses	60%	66.67%
Profit before Tax	40%	33.33%
Profit after Tax	28%	23.33%

6. Calculate trend percentage of revenue from operations from the following information, assume 2010-11 as base

Year	2010-11	2011-12	2012-13	2013-13	2014-15
Net Sales in Laksh (₹)	20	25	28	35	40

Ans. : Trend Percentages 25% , 40%, 75%, 100%

7. Calculate trend ratio of employees benefit expenses from the following information, taking 2011-12 as base.

Year	2011-12	2012-13	2013-14	2014-15	2015-16
Employees related Expenses (₹)	5,00,000	6,00,000	4,50,000	4,00,000	7,00,000

Ans. : Trend Ratios 120, 90, 80, 140

8. Give format of Common-Size Balance Sheet.
9. What do you understand by horizontal and vertical analysis?
10. Is there any conflict between horizontal and vertical analysis?
11. Financial statement analysis is a postmortem of business transactions do you agree.

Ans. Yes, It measures from past information operational efficienty, profitability and financial strength.

12. Which type of financial analysis will be used for inter-firm and intra-firm comparison?

Ans. Horizontal-Intra firm, to or more periods, Vertical- inter-firm for various items oral, single set

13. Time series analysis and static analysis are the an other names of which type of financial analysis.
14. Prepare the format of Comparative Statement of Profit and Loss showing main headings.
15. Prepare Common-Size Balance Sheet from the following Balance Sheet.

Particulars	**31 March 2017 ₹**
I. **EQUITY AND LIABILITIES**	
1. Shareholders' Funds	
(a) Share Capital	15,00,000
2. Current Liabilities	
(a) Trade Payables	5,00,000
Total	**20,00,000**
II. ASSETS	
1. Non-Current Assets	
(a) Fixed Assets (Trangible)	16,00,000
2. Current Assets	
(a) Trade Receivables	4,00,000
Total	**20,00,000**

Ans. :

Share Capital	Current Liabilities	Fixed Assets	Current Assets
75%	25%	80%	20%

16. Prepare Common-Size Balance Sheet from the following Balance Sheet.

Particulars	**31 March 2017 ₹**
I. EQUITY AND LIABILITIES	
1. Shareholders' Funds	
(a) Share Capital :	4,00,000
(b) Reserves and Surplus	2,00,000
2. Non-Current Liabilities	
(a) Long-term Borrowings	1,50,000
3. Current Liabilities	
(a) Short Term Borrowings	1,50,000
(b) Trade Payables	1,00,000
Total	**10,00,000**
II. ASSETS	
1. Non-Current Assets	
(a) Trangible Assets	6,00,000

(b) Intangible Assets		1,00,000
2. Current Assets		
(c) Cash and Cash Equivalents		3,00,000
Total		**10,00,000**

Ans. :

	Share Capital	Reserves and Surplus	LTB	STB	TP	TA	IA	Cash
Percentage Change	40%	20%	15%	15%	10 %	60%	10%	30%

17. Prepare Comparative Balance Sheet from the following information as at 31st March 2017.

Particulars	Note No.	31 March 2017 ₹	31 March 2016 ₹
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital :			
(i) Equity Share Capital		10,00,000	8,00,000
(b) Reserves and Surplus		4,00,000	3,00,000
2. Non-Current Liabilities			
(a) Long-term Borrowings		6,00,000	5,00,000
3. Current Liabilities			
(a) Trade Payables		5,00,000	4,00,000
Total		**25,00,000**	**20,00,000**
II. ASSETS			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		16,00,000	13,00,000
(ii) Intangible Assets		1,00,000	1,00,000
2. Current Assets			
(a) Trade Receivables		6,00,000	4,00,000
(b) Cash and Cash Equivalents		2,00,000	2,00,000
Total		**25,00,000**	**20,00,000**

Ans. :

	Share Capital	Reserves and Surplus	LTB	TP	TA	IA	TR	Cash
Percentage Change	25%	33.33%	20%	25%	23.00%	--	50%	--

18. Prepare comparative balance sheet as on 31st March 2017 from the following information.

Particulars	Note No.	31 March 2017 ₹	31 March 2016 ₹
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital :			
(i) Equity Share Capital		20,00,000	16,00,000

(ii) Preference Share Capital		10,00,000	8,00,000
2. Non-Current Liabilities			
Long-term Borrowings		12,00,000	10,00,000
3. Current Liabilities			
(i) Trade Payables		5,00,000	4,00,000
(ii) Short term provisions		3,00,000	2,00,000
Total		**50,00,000**	**40,00,000**
II. ASSETS			
1. Non-Current Assets			
Fixed Assets		28,00,000	25,00,000
2. Current Assets			
(a) Trade Receivables		12,00,000	10,00,000
(b) Cash and Cash Equivalents		10,00,000	5,00,000
Total		**50,00,000**	**40,00,000**

Ans. :

	ES Cap	PS Cap	LTB	TP	STP	FA	Invest	Cash
Percentage Change	25%	25%	20%	25%	50%	12%	20%	100%

Essay Type Questions :

1. Explain parties interested in financial statements and their utility.
2. Write down limitations of financial statements.
3. Explain objectives of financial analysis.
4. Explain process of financial analysis.
5. Give the format of Common-Size Balance Sheet and Common-Size Statement of Profit and Loss.

Answer of Multiple Choice Questions

Que.	1	2	3	4	5	6	7	8	9	10
Ans.	B	A	C	D	A	A	B	C	B	B

Numerical Questions :

1. From the following Balance Sheets, prepare Comparative Balance Sheet.

Particulars	Note No.	31 March 2016 ₹	31 March 2017 ₹
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		15,00,000	20,00,000
2. Non-Current Liabilities			
(a) Long-term Borrowings			
Secured Loan- 10% Debentures		6,00,000	5,00,000
3. Current Liabilities			
(a) Trade Payables		1,00,000	1,20,000
Total		**22,00,000**	**26,20,000**

II. ASSETS			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		16,00,000	20,00,000
2. Current Assets			
(a) Trade Receivables		4,00,000	3,00,000
(b) Cash and Cash Equivalents		2,00,000	3,20,000
Total		**22,00,000**	**26,20,000**

Ans. :

	Share Capital	10% Debentures	Trade Payables	Tangible Assets	Trade Receivables	Cash and Cash Equivalents
Absolute Change ₹	5,00,000	(1,00,000)	20,000	4,00,000	(1,00,000)	1,20,000
Percentage Change	33.33	(16.67)	20	25	(25)	12

2. Complete the following Comparative Balance Sheet.

Particulars	**Note No.**	**31 March 2016 ₹**	**31 March 2017 ₹**	**Absolute Change (Increase/Decrease)**	**Percentage Change (Increase/Decrease)**
1	**2**	**3**	**4**	**5**	**6**
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Equity Share Capital		4,00,000	?	1,00,000	25.00
(b) Reserves and Surplus		1,00,000	1,25,000	?	25.00
2. Non-Current Liabilities					
(a) Long-term Borrowings		2,00,000	1,75,000	?	(12.50)
3. Current Liabilities					
(a) Trade Payables		2,00,000	?	1,00,000	50.00
Total		**9,00,000**	**11,00,000**	**2,00,000**	**22.22**
II. ASSETS					
1. Non Current Assets					
(a) Tangible Assets		6,00,000	8,00,000	2,00,000	33.33
(b) Intangible Assets		50,000	?	?	40.00
2. Current Assets					
(a) Trade Receivables		1,00,000	1,50,000	?	50.00
(b) Cash and Cash Equivalents		1,50,000	80,000	(70,000)	(56.67)
Total		**9,00,000**	**11,00,000**	**?**	**22.22**

Ans. : Equity Share Capital : ₹ 5,00,000, Reserves and Surplus- ₹ 25,000, Long-term Borrowings (₹ 25,000), Current Liabilities- ₹ 3,00,000, Intangible Assets - ₹ 70,000 and ₹ 20,000, Trade Receivable- ₹ 50,000, Total of absolute change - ₹ 2,00,000

3. From the following Balance Sheet prepare Comparative Balance Sheet.

Particulars	Note No.	31 March 2016 ₹	31 March 2017 ₹
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		10,00,000	1,50,000
(b) Reserves and Surplus		5,00,000	6,00,000
2. Non-Current Liabilities			
(a) Long-term Borrowings		2,00,000	2,25,000
3. Current Liabilities			
(a) Trade Payables		3,00,000	4,00,000
Total		**20,00,000**	**27,25,000**
II. ASSETS			
1. Non-Current Assets			
(a) Fixed Assets (Tangible)		15,00,000	20,00,000
(b) Intangible Assets		1,00,000	3,00,000
2. Current Assets			
(a) Investment		2,00,000	4,00,000
(b) Cash and Cash Equivalents		2,00,000	25,000
Total		**20,00,000**	**27,25,000**

Ans. :

	Share Capital	Reserves and Surplus	LTB	TP	TA	IA	Inv.	Cash
Absolute Change ₹	5,00,000	1,00,000	25,000	1,00,000	5,00,000	2,00,000	2,00,000	(1,75,000)
Percentage Change	50	20	12.5	33.33	33.33	200	100	(87.5)

4. Prepare Comparative Statement of Profit and Loss from the following information.

Particulars	Note No.	31 March 2015 ₹	31 March 2016 ₹
Revenue from Operations		50,00,000	60,00,000
Other Income		4,00,000	5,00,000
Cost of Materials consumed		25,00,000	35,00,000
Other Expenses		3,00,000	7,00,000
Tax Rate		30%	30%

Ans. :

	Total Revenue from Operations	**Total Expenses**	**Profit Before Tax**	**Profit after Tax**
Absolute Change ₹	10,00,000	14,00,000	(3,00,000)	(90,000)
Percentage Change	20	50	(11.54)	(11.54)

5. Complete the Comparative Balance Sheets from the following information.

Particulars	Note No.	31 March 2016 ₹	31 March 2017 ₹	Absolute Change ₹	Percentage Change (%)
1	2	3	4	5	6
I. Revenue from Operations		30,00,000	40,00,000	10,00,000	?
II. Expenses					
(a) Employees benefit expenses		16,00,000	?	6,00,000	37.5
(b) Depreciation and Amortisation Expenses		8,00,000	?	?	25.00
(c) Other Expenses		2,00,000	?	1,00,000	50.00
Total		**26,00,000**	**35,00,000**	**9,00,000**	**34.61**
III. Profit Before Tax (I- II)		4,00,000	?	1,00,000	25.00
IV. Less : Income Tax		1,20,000	1,50,000	30,000	25.00
V. Profit after Tax (III-IV)		**2,80,000**	**3,50,000**	**7,00,000**	**25.00**

Ans. : Employees benefit expenses- ₹ 22,00,000, Depreciation- ₹ 10,00,000, and ₹ 2,00,000, Other Expenses- ₹ 3,00,000, Profit before Tax- ₹ 5,00,000.

6. Prepare Common-Size Balance Sheet from the following information.

Particulars	Note No.	31 March 2017 ₹ x Ltd.	31 March 2017 ₹ y Ltd.
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital :			
(i) Equity Share Capital		5,00,000	8,00,000
(ii) Preference Share Capital		4,00,000	4,00,000
(b) Reserves and Surplus		2,00,000	3,00,000
2. Non-Current Liabilities			
(a) Long-term Borrowings		3,00,000	4,00,000
3. Current Liabilities			
(a) Short Term Borrowings		2,50,000	2,00,000
(b) Trade Payables		1,00,000	1,50,000
(c) Short-term Provisions		2,50,000	2,50,000
Total		**20,00,000**	**25,00,000**
II. ASSETS			
1. Non Current Assets			
(a) Fixed Assets (Trangible)		12,00,000	18,00,000
2. Current Assets			
(a) Inventories		3,00,000	3,00,000
(b) Trade Receivables		2,00,000	2,25,000
(c) Cash and Cash Equivalents		3,00,000	1,75,000
Total		**20,00,000**	**25,00,000**

Ans. :

Particulars	2016-17 (%)	2016-17 (%)
Equity Share Capital	25	32
Preference Share Capital	20	16
Reserves and Surplus	10	12
Debentures	15	16
Current Liabilities	30	24
	100	**100**
Fixed Assets	60	72
Current Assets	40	28
	100	**100**

7. Complete the Common-Size Balance Sheet.

Particulars	Note No.	Absolute Amount ₹		Percentage of Balance Sheet (%)	
		31 March 2016	31 March 2017	31 March 2016	31 March 2017
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital :		10,00,000	?	50	48
(b) Reserves and Surplus		3,00,000	4,00,000	15	16
2. Non-Current Liabilities					
(a) Long-term Borrowings		2,00,000	?	10	12
3. Current Liabilities					
(a) Trade Payables (Creditors)		5,00,000	?	25	24
Total		**20,00,000**	**25,00,000**	**100**	**100**
II. ASSETS					
1. Non Current Assets					
(a) Fixed Assets (Tangible)		16,00,000	?	80	72
2. Current Assets					
(a) Cash and Cash Equivalents		4,00,000	?	20	28
Total		**20,00,000**	**?**	**100**	**100**

Ans. : Share Capital- ₹ 12,00,000, Long - term Borrowings - ₹ 3,00,000, Trade Payables (Creditors) - ₹ 6,00,000, Fixed Assets- ₹ 18,00,000, Cash ₹ 7,00,000,

8. Convert the following statement of Profit and Loss to Common-Size Statement of Profit and Loss.

Particulars	Note No.	31 March 2016 ₹	31 March 2017 ₹
Income	1		
I. Income Revenue from Operations		20,00,000	30,00,000
II. Other Income		1,00,000	2,00,000
III. Total Revenue (I + II)		**21,00,000**	**32,00,000**
IV. Expenses			
(a) Purchases of Stock in Trade		12,00,000	6,00,000
(b) Change in Inventories of finished Goods, Work-in- progress and Stock-in-Trade		3,00,000	4,00,000

(c) Employees Benefit Expenses		1,00,000	2,00,000
(d) Other Expenses	2	2,00,000	4,00,000
Total Expenses		**18,00,000**	**26,00,000**
V. Profit Before Tax (III - IV)		3,00,000	6,00,000
VI. Less : Income Tax 30%		90,0000	1,80,000
VII. Profit after Tax (V-VI)		**2,10,000**	**4,20,000**

Notes to the Accounts :

Particulars	Note No.	31 March 2016 ₹	31 March 2017 ₹
Revenue from Operations (Sales)	1	21,00,000	30,75,000
Less : Returns		1,00,000	75,000
		20,00,000	**30,00,000**
Other Expenses	2		
(a) Administrative Expenses		1,20,000	2,50,000
(b) Miscellaneous Expenses (Non Operative)		80,000	1,50,000
		2,00,000	**4,00,000**

Ans. :

	Other income	Purchases	Inventoried	employees exp.	other exp.	N.P. before tax	N.P. After tax
31st March 2016 (%)	5.00	60.00	15.00	5.00	10.00	15.00	10.50
31st March 2017 (%)	6.67	53.34	13.33	6.67	13.33	20.00	14.00

9. From the following information, calculate trend ratios of various items of Profit and Loss Account, taking as base 2012-13.

Year	2012 -13	2013 - 14	2014 - 15	2015 - 16	2016 - 17
Total Revenue ₹	10,00,000	11,00,000	12,00,000	15,00,000	18,00,000
Total Expenses ₹	8,00,000	8,00,000	9,00,000	10,00,000	12,00,000
Profit before Tax ₹	2,00,000	3,00,000	3,00,000	5,00,000	6,00,000

Ans. : Trend Ratios :

	2012-13	**2013-14**	**2013-14**	**2014-15**	**2016-17**
Total Revenue	100.00	110.00	120.00	150.00	180.00
Total Exp.	100.00	100.00	112.50	125.00	150.00
N. P. before Tax	100.00	150.00	150.00	250.00	300.00

10. Calculate Trend Percentages from the following information, taking base 2012-13.

	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Total Revenue ₹	12,00,000	18,00,000	20,00,000	24,00,000	28,00,000
Total Expenses ₹	8,00,000	10,00,000	15,00,000	18,00,000	22,00,000

Ans. :

	2012-13	2013-14	2014-15	2015-16	2016-17
Trend Percentage of Total Revenue	--	50	66.67	100	133.33
Trend Percentage of Total Expenses	--	25	87.50	125	175.00

11. Calculate Trend ratios from the following figures taking the year ending 31 March, 2012 as base.

Year	31 March 2012	31 March 2013	31 March 2014	31 March 2015	31 March 2016
Net Sales ₹	5,00,000	8,00,000	10,00,000	12,00,000	15,00,000
Total Expenses ₹	3,00,000	4,50,000	6,50,000	7,50,000	10,00,000
Net Profit Before Tax ₹	2,00,000	3,50,000	3,50,000	4,50,000	5,00,000

Ans. :

Year	31 March 2012	31 March 2013	31 March 2014	31 March 2015	31 March 2016
Total Sales	100	160	200	240	300
Total Expenses	100	150	216.67	250	333.33
Net Profit Before Tax	100	170	175	225	250

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