

QB365 Question Bank Software Study Materials

Financial Statement Analysis Important 2 Marks Questions With Answers (Book Back and Creative)

12th Standard

Accountancy

Total Marks : 40

2 Marks

20 x 2 = 40

- 1) From the following particulars, prepare comparative income statement of Tharun Co. Ltd.

PARTICULARS	2016-17	2017-18
	Rs.	Rs.
Revenue from operations	2,00,000	2,50,000
Other income	50,000	40,000
Expenses	1,50,000	1,20,000

Answer :

PARTICULARS	2016-17	2017-18	ABSOLUTE AMOUNT OF INCREASE (+) OR DECREASE (-)	PERCENTAGE INCREASE (+) OR DECREASE (-)
	Rs.	Rs.	Rs.	
Revenue from operations	2,00,000	2,50,000	+50,000	+25
Add: Other income	50,000	40,000	-10,000	-20
Total revenue	2,50,000	2,90,000	+40,000	+16
Less: Expenses	1,50,000	1,20,000	-30,000	-20
Profit before tax	1,00,000	1,70,000	+70,000	+70

Comparative income statement of Tharun Co. Ltd for the years ended 31st March, 2017 and 31st March, 2018

Computation of percentage increase for revenue from operations

$$\frac{\text{Absolute amount of increase or decrease}}{\text{Year 1 amount}} \times 100 = \frac{50,000}{2,00,000} \times 100 = 25$$

- 2) From the following particulars of Kumar Ltd, prepare a common-size income statement for the year ended 31st March, 2018.

PARTICULARS	2017-18
	Rs.
Revenue from operations	5,00,000
Other income	20,000
Expenses	3,00,000

Answer :

PARTICULARS	ABSOLUTE AMOUNT	PERCENTAGE OF REVENUE FROM OPERATIONS
Revenue from operations	5,00,000	100
Add: Other income	20,000	4
Total revenue	5,20,000	104
Less: Expenses	3,00,000	60

Less: Expenses	3,00,000	00
Profit before tax	2,20,000	44

Common-size income statement of Kumar Ltd for the year ended 31st March, 2018

Computation of percentage for other income

$$\frac{20,000}{5,00,000} \times 100 = 4\%$$

- 3) From the following particulars, prepare comparative income statement of Arul Ltd.

PARTICULARS	2015-16	2016-17
	RS.	RS.
Revenue from operations	50,000	60,000
Other income	10,000	30,000
Expenses	40,000	50,000

Answer :

PARTICULARS	2015-16	2016-17	ABSOLUTE AMOUNT	PERCENTAGE
			OF INCREASE (+) OR DECREASE (-)	INCREASE (+) OR DECREASE (-)
Revenue from Operations	50,000	60,000	+10,000	+20
Add: Other income	10,000	30,000	+20,000	+200
Total revenue	60,000	90,000	+30,000	+50
Less: Expenses	40,000	50,000	+10,000	+25
Profit before tax	20,000	40,000	+20,000	100

Comparative income statement of Arul Ltd for the years ended 31st March 2016 and 31st March 2017

Note:

Computation of percentage increase for revenue form operations = $\frac{10,000}{50,000} \times 100 = 20\%$

Percentage increase for other incomes = $\frac{20,000}{10,000} \times 100 = 200\%$

Percentage increase for expenses = $\frac{10,000}{40,000} \times 100 = 25\%$

- 4) From the following particulars, prepare comparative income statement of Daniel Ltd.

PARTICULARS	2015-16	2016-17
	RS.	RS.
Revenue from operations	40,000	50,000
Operating expenses	25,000	27,500
Income tax (% of the profit before tax)	30	30

Answer :

PARTICULARS	2015-16 RS.	2016-17 RS.	ABSOLUTE AMOUNT OF INCREASE (+) OR DECREASE (-) RS.	PERCENTAGE INCREASE (+) OR DECREASE (-)
Revenue from Operations	40,000	50,000	+ 10,000	+ 25
Less: Operating expenses	25,000	27,500	+ 2,500	+ 10
Profit before tax	15,000	22,500	+ 7,500	+ 50
Less: Income tax	4,500	6750	+ 2,250	+ 50
Profit after tax	10,500	15,750	+ 5,250	+ 50

Comparative income statement of Daniel Ltd for the year ended 2016 and 2017

Note:

$$\text{Percentage increase for revenue from operations} = \frac{10,000}{40,000} \times 100 = 25\%$$

$$\text{Percentage increase for operating expenses} = \frac{2,500}{25,000} \times 100 = 10\%$$

$$\text{Percentage increase for profit before tax} = \frac{7,500}{15,000} \times 100 = 50\%$$

$$\text{Percentage increase for income for Income tax} = \frac{2250}{4500} \times 100 = 50\%$$

$$\text{Percentage increase for profit after tax} = \frac{5250}{10,500} \times 100 = 50\%$$

- 5) From the following particulars of Maria Ltd. and Kala Ltd. prepare a common-size income statement for the year ended 31st March, 2019.

PARTICULARS	MARIA LTD	KALA LTD
	Rs	Rs.
Revenue from operations	1,00,000	2,00,000
Other income	10,000	30,000
Expenses	70,000	1,20,000

Maria Ltd: Other income: 10%; Total revenue: 110%; Expenses: 70%; Profit before tax: 40%

Kala Ltd: Other income: 15%; Total revenue: 115%; Expenses: 60%; Profit before tax: 55%)

Answer :

PARTICULARS	MARIA LTD		KALA LTD	
	ABSOLUTE AMOUNT	PERCENTAGE OF REVENUE FROM OPERATIONS	ABSOLUTE AMOUNT	PERCENTAGE OF REVENUE FROM OPERATIONS
	RS.	RS.	RS.	
Revenue from Operations	1,00,000	100	2,00,000	100
Add: Other income	10,000	10	30,000	15
	1,10,000	110	2,30,000	115
Less: Expenses	70,000	70	1,20,000	60
Profit before tax	40,000	40	1,10,000	55

Common size income statement for the year ended 31st March, 2019 31st March, 2017

Note: In Maria Ltd:

$$\text{Computation of percentage for other income} = \frac{10,000}{1,00,000} \times 100 = 10\%$$

$$\text{Percentage for Expenses} = \frac{70,000}{1,00,000} \times 100 = 70\%$$

$$\text{Percentage for before tax} = \frac{40,000}{1,00,000} \times 100 = 40\%$$

In Kala Ltd:

$$\text{Percentage for other income} = \frac{30,000}{2,00,000} \times 100 = 15\%$$

$$\text{Percentage for Expenses} = \frac{1,20,000}{2,00,000} \times 100 = 60\%$$

$$\text{Percentage for profit before tax} = \frac{1,10,000}{2,00,000} \times 100 = 55\%$$

- 6) From the following particulars, calculate the trend percentages of Kala Ltd.

PARTICULARS	RS. IN THOUSANDS		
	2015-16	2016-17	2017-18

PARTICULARS	RS.IN THOUSANDS		
Revenue from operations	400	500	600
Other income	100	150	200
Expenses	200	290	350

Answer :

PARTICULARS	RS. IN THOUSANDS			TRENDS PERCENTAGE		
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
Revenue from operations	400	500	600	100	125	150
Add: Other income	100	150	200	100	150	200
Total revenue	500	650	800	100	130	160
Less: Expenses	200	290	350	100	145	175
Profit aftertax	300	360	450	100	120	150

Trend analysis for kala ltd

Note: 2016 - 17.

Percentage for Revenue from operations = $\frac{500}{400} \times 100 = 125\%$

Percentage of other income = $\frac{150}{100} \times 100 = 150\%$

Percentage of total revenue = $\frac{650}{500} \times 100 = 130\%$

Percentage for expenses = $\frac{290}{200} \times 100 = 145\%$

Percentage for profit before tax = $\frac{360}{300} \times 100 = 120\%$

In 2017 -18.

Percentage for revenue from operations = $\frac{600}{400} \times 100 = 150\%$

Percentage for other income = $\frac{200}{100} \times 100 = 200\%$

Percentage of total revenue = $\frac{800}{500} \times 100 = 160\%$

Percentage for expenses = $\frac{350}{200} \times 100 = 175\%$

Percentage for profit before tax = $\frac{450}{300} \times 100 = 150\%$

7) What are financial statements?

Answer : Financial statements are the statements prepared by the business concern at the end of the accounting period to ascertain the operating results and the financial position. The basic financial statements prepared by business concerns are income statement and balance sheet.

8) List the tools of financial statement analysis.

Answer : Following are the commonly used tools of financial statement analysis

- (i) Comparative statement
- (ii) Common-size statement
- (iii) Trend analysis
- (iv) Funds flow analysis
- (v) Cash flow analysis

9) What is working capital?

Answer : Working capital statement or schedule of changes in working is prepared to disclose net change in working capitals on two specific dates (generally two balance sheet dates). It is prepared from current assets and current liabilities

Working Capital = current Assets - Current Liabilities.

10) When is trend analysis preferred to other tools?

Answer : Trend analysis refers to the study of movement of figures over a period. The trend may be increasing trend or decreasing trend or irregular. When data for more than two years are to be analysed, it may be difficult to use comparative statement.

11) Write a short note on

- i) Intra-firm comparison
- ii) Inter-firm comparison

Answer : (i) Intra-firm comparison is comparison within the organisation among different departments, division etc
(ii) Inter-firm comparison is comparison of one firm with other firm or firms in the industry.

12) What is trend analysis?

Answer : Trend refers to the tendency of movement. Trend analysis refers to the study of movement of figures over a period. The trend may be increasing trend or decreasing trend or irregular

13) What is funds flow analysis?

Answer : Funds flow analysis is concerned with preparation of funds flow statement which shows the inflow and outflow of funds in a given period of time. Funds flow analysis is useful in judging the credit worthiness, financial planning and preparation of budgets.

14) What do you mean by financial statement analysis?

Answer : Financial statement analysis is comparison of the various items in the financial statements by establishing and evaluating relationship among them. So that, it gives a better understanding of the performance and financial status of the business concern.

15) Both horizontal and vertical analysis are complementary in nature. Do you agree?

Answer : There is no conflict between both the analysis because both serve different purposes. Horizontal analysis is used for intra-firm comparison and vertical analysis is used for inter-firm comparison. In real practice, both the analysis are complementary in nature.

16) Common size statement is also known as 100 % statement. Do you agree?

Answer : Yes, common size statement is also known as 100 % statement. Since in this statement, all items are expressed as percentage of the base item i.e. revenue from operations in case of common size statement of profit and loss or total assets in case of common size balance sheet.

17) Define financial statements?

Answer : According to American Institute of Certified Public Accounts. "It reflects a combination of recorded facts, accounting principles and personal judgements".

18) What is difference between analysis and interpretation?

Answer : Analysis and interpretation are closed related. Interpretation is not possible without analysis and without interpretation analysis has no value. Hence the term analysis is widely used to refer both analysis and interpretation.

19) What are the steps in nature of financial statements?

Answer : (i) Recorded facts
(ii) Accounting conventions
(iii) Postulates
(iv) Personal judgements

20) What are the names are called balance sheet?

Answer : A balance sheet is called different name
(i) Balance sheet (or) General balance sheet.
(ii) Statement of financial position (or) conclusion
(iii) Statement of assets and liabilities
(iv) Statement of resources and liabilities
(v) Statement of assets, liabilities and owners funds etc.