CBSE Test Paper 02

Ch-9 Financial Statements and Analysis

1. Which of the following is a fictitious Asset?
   a. Preliminary Expense
   b. Loose Tools
   c. Goodwill
   d. Income Tax
2. When analysis is made on the basis of Published statements, reports and information it is known as.....
   a. Horizontal analysis
   b. Internal Analysis
   c. External analysis
   d. Vertical Analysis
3. Analysis of Financial statements suffers from the limitation of window dressing which means....
   a. All of these
   b. may overvalue closing stock to show higher profits
   c. hide some vital information
   d. show items at incorrect value to portray better profitability
4. The Real object of Analysis of Financial Statement is …………
   a. To assess the total liabilities of the firm
   b. To assess the total expenses of the firm
   c. To know about historical cost concept
   d. To measure the financial strength of the business
5. Bank overdraft is shown in the balance sheet under the ……….
   a. Short Term Borrowings
   b. Shareholders' Funds
   c. Non-current liabilities
   d. Other Current Liabilities

6. How is analysis of Financial statements suffered from the limitation of window dressing?

7. Name two items of revenue from operations of a finance company.
8. How is the financial statement analysis useful to finance manager?
9. Define Inter-firm and Intra firm Analysis.
10. How the earning capacity of a business is assessed by financial statement analysis?
11. Prepare a comparative statement of profit and loss from the following information.

Particulars	**2009 Amt (Rs.)**	**2010 Amt (Rs.)**
Revenue from Operations	10,00,000	12,50,000
Cost of Revenue from Operations	5,00,000	6,50,000
Carriage inwards	30,000	50,000
Operating Expenses	50,000	60,000
Income Tax	50%	50%

12. From the following data, prepare Statement of Profit and Loss in the comparative form:

Particulars	**31st March 2013(Rs.)**	**31st March 2012(Rs.)**
Revenue from Operations	8,00,000	6,00,000
Cost of Materials Consumed(% of Revenue from Operations)	60%	70%
Employees Benefit Expenses	1,00,000	40,000
Income tax	50%	50%

13. Prepare Comparative and Common Size income statement from the following information for the year‘s ended March 31, 2008 and 2009.

Particulars	**2008 (Rs.)**	**2009 (Rs.)**

1.Net Sales	8,00,000	10,00,000
2.Cost of Goods Sold	60% of sales	60% of sales
3.Indirect Expenses	10% of Gross profit	10% of Gross Profit
4.Income Tax rate	50%	60%

14. State any two items that are included in the following major heads under which liabilities of a company are shown;

    i. Reserves and surplus;
    ii. Long-term Borrowings;
    iii. Short-term Borrowings;
    iv. Other Current Liabilities.

Answer

1. a. Preliminary Expense, **Explanation:** Classification of items:
   Preliminary Expense --- Fictitious Asset
   The expenses incurred when a company is formed and before the start of any business operations are termed as preliminary expenses, they are a good example of fictitious assets which are written off every year from the profits earned by the business.
   Preliminary expenses include Legal cost, Professional fees, Stamp duty, Printing fees, etc.
   Preliminary expenses are shown on the Assets side of the balance sheet.
2. c. External analysis, **Explanation:** Analysis made by external users on the basis of published financial statements is called external analysis. Only an external user may have to use published statements; an internal user has access to all accounting records, he would not have to depend on and wait for the information to be published and they can do internal analysis throughout the year.
3. a. All of these, **Explanation:** Window dressing is the limitation of accounting which is directly concerned with: hide some vital information show items at incorrect value to portray better profitability may overvalue closing stock to show higher profits
4. d. To measure the financial strength of the business
   Explanation: The main objective of analysis of financial statement is to measure the financial strength and performance of the firm.
5. a. Short Term Borrowings, **Explanation:** Because it is a liability repayable normally within 12 months.

6. Corporations naturally want to look their best to shareholders and lenders. One way for them to present a good appearance is to window-dress their financial statements, which requires taking certain actions that enhance financial results and ratios. The risk of window dressing is that what starts as white lies in one period might eventually corrode the ethical standards of a company’s executives and spiral down into illegal practices, fraud and prison sentences.

7. i. Revenue from other financial services,
   ii. Interest

8. Financial statement analysis is the process of analyzing a company's financial statements for decision-making purposes and to understand the overall health of an organization. Financial statements record financial data, which must be evaluated through financial statement analysis to become more useful to investors, shareholders, managers, and other interested parties. Financial statement analysis is useful to finance manager for taking financial decisions for the business It provides adequate information for financial planning.

9. **INTRA FIRM** Comparison of financial statements of a firm over a period of time.

   INTER FIRM Comparison of a financial statement of various firms.

10. Profit and loss account is prepared as a part of financial statements. The amount of accumulated profits and losses are given in this statement. Also various types of ratios in relation to profitability can be drawn. These ratios can be compared with industry standards to assess the earning capacity. There are many indicators of earning capacity of an enterprise, ratios are only one way to do that.

11. **Comparative Income Statement**

Particular	**2009**	**2010**	Absolute Change	% Change
	(A)	**(B)**	**(C) = (B - A)**	**(D) = ($\frac{C}{A} \times 100$)**
	Rs.	Rs.	Rs.	%
Revenue From Operations	1000000	1250000	250000	25
Total Revenue (I)	**1000000**	**1250000**	250000	25
Expenses:				
Cost of revenue from operations	500000	650000	150000	30
Carriage inward	30000	50000	20000	66.66
Operating Expenses	50000	60000	10000	20
Total	**580000**	**760000**	180000	31.03

Profit Before Tax (III – IV)	**420000**	**490000**	70000	16.67
Less:- Tax @50%	**210000**	**245000**	35000	16.67
Profit After Tax	**210000**	**245000**	35000	16.67

12. **Comparative Statement of Profit and Loss**

for the years ended 31st March 2012 and 2013

Particulars	**Note No.**	**31st March 2012 Amount (Rs.)**	**31st March 2013 Amount (Rs.)**	**Absolute Change (Increase/ Decrease) Amount (Rs.)**	**Percentage Change (Increase/ Decrease) (%)**
		(A)	(B)	(C = B - A)	(D = $\frac{C}{A} \times 100$)
I. Revenue from Operations		**6,00,000**	**8,00,000**	**2,00,000**	**33.33**
II. Expenses:					
(a) Cost of Materials Consumed		4,20,000	4,80,000	60,000	14.29
(b) Employee Benefit Expenses		40,000	1,00,000	60,000	150.00
II. Total Expenses:		**4,60,000**	**5,80,000**	**1,20,000**	**26.09**
III. Net Profit before Tax(I - II)		**1,40,000**	**2,20,000**	**80,000**	**57.14**
IV. Less: Tax		70,000	1,10,000	40,000	57.14
V. Net Profit after Tax(III - IV)		**70,000**	**1,10,000**	**40,000**	**57.14**

Comparative statements are the financial statements that determine the financial position of a firm at different period of time. For the purpose of financial analysis, two financial statements are prepared in competitive form. These financial statements generally include income statement and balance sheet. The income statement gives detailed information-on the operating and non-operating results for an accounting period.

13. **Comparative Income statement**

Particular	**2008 Amount (Rs)**	**2009 Amount (Rs)**	**Change in Amount (Rs)**	**Change in Percentage (%)**
Net Sales	8,00,000	10,00,000	2,00,000	25%
Less: Cost of Goods Sold	4,80,000	6,00,000	1,20,000	25%
Gross Profit	3,20,000	4,00,000	80,000	25%
Less: Indirect Expenses	32,000	40,000	8,000	25%
Operating Profit (Profit Before Tax)	2,88,000	3,60,000	72,000	25%
Less: tax	1,44,000	2,16,000	72,000	50%
Profit after tax	1,44,.000	1,44,000	----------	------------

Common Size Income Statement

Particulars	**2008 Amount (Rs)**	**2009 Amount (Rs)**	**Percentage of Net sales in P.Y. (%)**	**Percentage of Net sales in C.Y. (%)**
Net Sales	8,00,000	10,00,000	100%	100%
Less: Cost of Goods Sold	4,80,000	6,00,000	60%	60%

Gross Profit	3,20,000	4,00,000	40%	40%
Less: Indirect Expenses	32,000	40,000	4%	4%
Operating Profit (Profit Before Tax)	2,88,000	3,60,000	36%	36%
Less: tax	1,44,000	2,16,000	18%	21.6%
Profit after tax	1,44,.000	1,44,000	18%	14.4%

14. **Notes to accounts**

Particulars	**Rs.**
1. Reserves & Surplus:	
(a) General Reserve	......
(b) Statement of P & L	......
2. Long-term borrowings:	
(a) Bank Loans	......
(b) Debentures	......
3. Short-term borrowings:	
(a) Bank overdraft	......
(b) Short-term loan from bank & others	......
4. Other Current Liabilities:	
(a) Outstanding expenses	......
(b) Calls in Advance	......