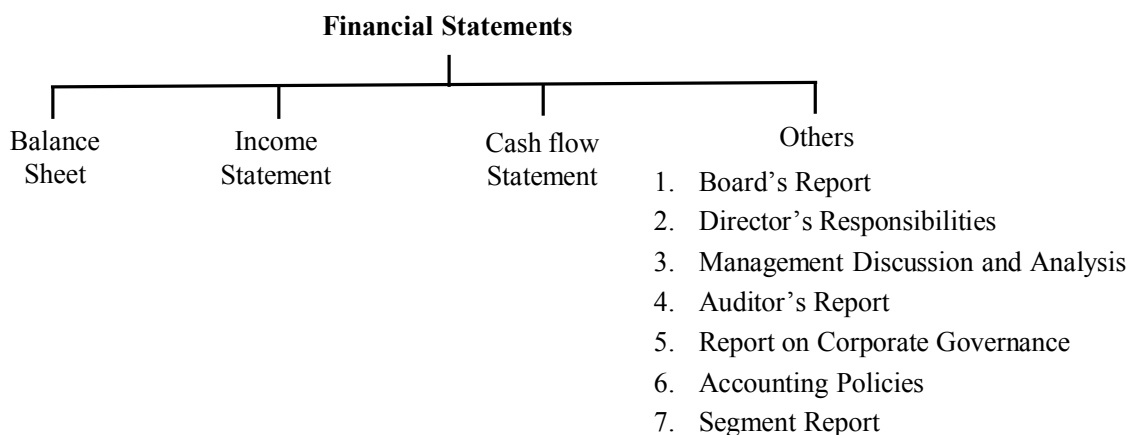


Chapter 2

Analysis and Interpretation Account

Financial Statements

A financial statement is a compilation of data, which is logically and consistently organized according to accounting principles. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment in time, as in the case of a balance sheet, or may reveal a series of activities over a given period of time, as in the case of an income statement. Financial statements are the major means through which firms present their financial situation to stockholders, creditors, and the general public. The majority of firms include extensive financial statements in their annual reports, which receive wide distribution.



The Nature of Financial Statement Analysis: Financial statement analysis consists of the application of analytical tools and techniques to the data in financial statements in order to derive from them measurements and relationships that are significant and useful for decision making. The process of financial analysis can be described in various ways, depending on the objectives to be obtained. Financial analysis can be used as a preliminary screening tool in the selection of stocks in the secondary market. It can be used as a forecasting tool of future financial conditions and results. It may be used as a process of evaluation and diagnosis of managerial, operating, or other problem areas. Above all, financial analysis reduces reliance on intuition, guesses and thus narrows the areas of uncertainty that is present in all decision making processes. Financial analysis does not lessen the need for judgment but rather establishes a sound and systematic basis for its rational application.

Sources of Financial Information: The financial data needed in the financial analysis come from many sources. The primary source is the data provided by the firm itself in its annual report and required disclosures. The annual report comprises the income statement, the balance sheet, and the statement of cash flows, as well as footnotes to these statements. Besides this, information such as the market prices of securities of publicly traded corporations can be found in the financial press and the electronic media daily. The financial press also provides information on stock price indices for industries and for the market as a whole.

The development of this chapter on financial statement analysis is carried out with the help of balance sheets and profit & loss accounts.

The Principal Tools of Analysis: In the analysis of financial statements, the analyst has a variety of tools available from which he can choose those best suited to his specific purpose. The following are the important tools of analysis.

1. Ratio analysis
2. Funds flow analysis, cash flow, etc.

Methods used in Analysis of Financial Statements or Tools of Analysis in Financial Statements

Financial statements when analysed of one year are not much meaningful. In order to arrive reasonable conclusions, financial statements should be analysed with reference to earlier years or with reference to other similar company. For such study following tools are:

1. Comparative Statement
2. Common Size Statement
3. Trend Analysis

In this chapter, we are discussing first three tools only.

(1) COMPARATIVE STATEMENTS

It includes comparative income statement and comparative Balance Sheet. The statement gives information about the comparative preference of the company over different years. Profitability and Financial position can be formed very well by making comparison between two years financial statement of same company or by making comparison between two different companies (inter firm comparison)

E.g. Comparison between years 2013 and 2014 of R Ltd. & Comparison between two companies A Ltd. and B Ltd. (Same line of business)

They are presented in the following form:

MI _____

Comparative Statement

No.	Particulars	2013 ₹	2014 ₹	Increase / Decrease ₹	Increase / Decrease %
(1)	Net Sales	50,000	70,000	20,000	40.00
(2)	Cost of Goods Sold	35 000	40 000	5,000	14.29
(3)	Gross Profit (1- 2)	15,000	30,000	15,000	100.00
(4)	Operating Expenses	7.000	4000	(3,000)	(42.86)
(5)	Net Profit	8,000	26,000	18,000	225.00

(1)	Shareholders Funds	1,00,000	1,00,000	—	—
(2)	Fixed Assets	80,000	60,000	(20,000)	(25.00)
(3)	Working Capital	15,000	18,000	3,000	20.00

Rupees Column	=	Year 2014 – Year 2013	=	+ Increase / (–) Decrease
% Column	=	$\frac{\text{Year 2014 – Year 2013}}{\text{Year 2013}} \times 100$	=	+ Increase % / (–) Decrease %

Advantages of Comparative Statements:

1. They are very useful as it gives information about the nature of changes in financial position and performance of an enterprise over the years.
2. These statements gives information about weakness and soundness of an enterprise, with respect to liquidity, solvency and profitability.
3. These statements help the management in forecasting and planning.

Limitations of Comparative Statements:

1. Comparison are not possible.
 - (A) When accounting principle are not followed consistently.
 - (B) When two periods are at normal periods (i.e. one normal and other abnormal)
 - (C) Inter-firm comparison can not be made unless they are of the same line.

(2) COMMON SIZE STATEMENTS

Meaning: Common size statement is another technique for financial analysis and interpretation which is also called as Vertical Technique, as against the comparative statement, which is called as the Horizontal Technique of comparison. It includes common size Income Statements and common size Balance Sheet.

This is useful when only one year financial statement is to be studied and conclusions are to be drawn.

Here, the actual size of the statement is converted into common size i.e. 100. Size means the total of the statement. Therefore the size of all statements becomes equal i.e. 100 and so the technique is called the common size statement. The other items of which the total is made are also reduced proportionately. So, common size statements are nothing but the financial statements presented in percentage form.

Procedure to convert actual statements to common size statement**(a) Profit and Loss A/c.**

Here the Net Sales to be taken as equal to 100 and the other items to be proportionately reduced. The formula is amount of the item divided by sale multiplied by 100.

E.g. if sale is ₹ 1,00,000, cost of sale is ₹ 60,000.

So the sale is to be taken = 100%

Now cost of sale = $\frac{60,000 \times 100}{1,00,000} = 60\%$

In this way the other items of Profit and Loss A/c are to be converted.

(b) Balance Sheet

In case of Balance Sheet, firstly it is to be converted in vertical form. Then the total funds to be taken as equal to 100 and other items like proprietor's fund, long term liabilities, fixed assets, working capital to be converted proportionately.

$$\text{The Formula : } \frac{\text{Amount of item to be converted}}{\text{Total funds}} = 100$$

With the help of common size statement the comparison between the items of the statement can be made easily and conclusion can be drawn.

Also the comparison between the same item of two different statements can be made easily.

E.g. Gross profit of 2012.

(3) TREND ANALYSIS

Meaning: It is a another simplified technique of analysis of financial data. In this case, out of several years, 1st year is considered as the base year. All the figures of base year are considered as 100 and the figures of subsequent years are expressed as a percentage of base year.

E.g. (Practical Example)

Trend Analysis									
No.	Particulars	Rupees				% in Rupees			
		2011	2012	2013	2014	2011	2012	2013	2014
(1)	Net Sales	1,000	1,200	1,500	1,250	100	120	150	125
(2)	Cost of Goods Sold	700	750	900	800	100	107.14	128.57	114.29
(3)	Gross Profit	300	450	600	450	100	150	200	150

1. First year is taken as base year i.e. 100.
2. Second and subsequent years are expressed in percentages on the basis of base year.

$$\% = \frac{\text{Year Under Study}}{\text{Base Year}} \times 100$$

3. Common Size Balance Sheet is prepared in same manners.

Advantages of Trend Analysis:

1. It is more reliable and accurate because it is based on percentages and not on absolute figures.
2. This method is considered as very useful for analysing the financial statement than offers technique because it takes more than 2 years. So we can say it as quick technique of analysis.

Limitations of Trend Analysis:

1. There is always the danger of selecting the base year which may be wrong.
2. Trend percentage is affected when accounts are not drawn on a consistent basis (different accounting policies).

M/s _____

Financial Position Statement as on _____

Particulars		₹	₹	₹
I. Sources of Funds:				
1.	Shareholders Fund (Owned Fund)			
	Equity Share Capital (Called-up Capital)		X	
	Less: Calls in Arrears		X	
			X	

Add: Shares Forfeited		X	
		X	
Preference Share Capital (Called-up Capital)		X	
		X	
Add: Reserve and Surplus:			
General Reserve	X		
Capital Reserve	X		
Capital Redemption Reserve	X		
Securities Premium	X		
Dividend Equilisation Reserve	X		
Investment Fluctuation Reserve	X		
Workmen Compensation Fund	X		
Insurance Fund	X		
Provident Fund	X		
Foreign Project Reserve	X		
Debenture Redemption Reserve	X		
Profit and Loss Account (Cr. Balance)	X		
Sinking Fund	X	X	
		X	
Less: Fictitious Assets (Miscellaneous Expenditure Not w/off)			
Preliminary Expenses	X		
Underwriting Expenses	X		
Discount on Issue of Shares/Debenture	X		
Issue Expenses not written off	X		
Deferred Revenue Expenditure	X		
Research and Development Expenditure	X		
Interest Paid out of Capital During Construction Period	X		
Profit and Loss Account (Dr. Balance)	X	(X)	X
2. Long-term Liabilities: (Owned Fund/ Borrowed Funds)			
Debentures		X	
Bank Loans (Secured/Unsecured Loans)		X	
Loan from Financial Institutions		X	
Deposits		X	
Public Deposits		X	
Bonds		X	X
3. Net Fund Employed (1 + 2) (Total Fund Available)			X
II. Application of Funds:			
1. Fixed Assets:			
Goodwill		X	
Patent Rights		X	
Copy right		X	
Trade Mark		X	
Technical Know How		X	
Land and Building		X	
Plant and Machinery		X	
Furniture and Fittings		X	
Live Stock		X	
Vehicles		X	

Motor Car		X	
Equipments		X	
Leasehold Property		X	
Freehold Property		X	
Railway Sidings		X	
		X	
		X	
Less: Provision for Depreciation		X	X
2. Investments:			
Investment in Govt. Bonds/Shares/Debentures			
Provident Fund Investment(Net)(Investment Exceeds Funds)			
3. Working Capital (A-B)			
(A) Current Assets (Quick Assets + Non Quick Assets)			
Quick Assets:			
Marketable Investment(Short-term)	X		
Cash and Bank Balance	X		
Debtors	X		
Bills Receivable	X	X	
Non Quick Assets:			
Closing Stock	X		
(Raw Material, W. I .P., Finished Goods, Spare Parts)			
Prepaid Expenses	X		
Advance Given	X		
Advance Tax	X	X	
(A)		X	
(B) Current Liabilities: (Quick Liabilities + Non Quick Liabilities)			
Quick Liabilities:			
Creditors	X		
Bills Payable	X		
Outstanding Expenses	X		
Provision for Tax	X	X	
Non-quick Liabilities:			
Bank Overdraft	X	X	
(B)		X	
(A-B)			X
4. Net Assets Owned (1 + 2 + 3)/(Total Funds Employed)			X

M/s _____

Income Statement for the year ended _____

Particulars	₹	₹	₹
1. Net Sales			
Cash Sales		X	
Credit Sales		X	
		X	
Less: Sales Return and Allowances		X	X
2. Cost of Goods Sold			
Opening Stock		X	
Add: Purchase (Less Purchase Return)		X	
Add: Direct Expenses			

	Carriage Inward	X		
	Freight Inwards	X		
	Octroi Duty	X		
	Import Duty	X		
	Loading and Unloading Charges	X		
	Commission on Purchase	X	X	
	<i>Add: Manufacturing/Factoring Expenses</i>			
	Direct Wages	X		
	Motive Power	X		
	Factory Rent and Rates	X		
	Factory Insurance	X		
	Gas and Water Charges	X		
	Royalties on Production	X		
	Excise Duty	X		
	Depreciation on Plant and Machinery	X		
	Depreciation on Factory Building	X		
	Loose Tools Writtenoff	X		
	Patents/Patterns Writtenoff	X		
	Factory Repairs	X		
	Stores Consumed	X		
	Bonus to Workers	X	X	
	<i>Less: Closing Stock</i>	X		
	Goods Damaged by Fire	X		
	Goods Sent on Consignment	X		
	Goods Sent to Branch	X		
	Goods to Transit	X	(X)	X
3.	Gross Profit(1-2)			X
4.	Operating Incomes			
	Discount Received (Discount on Purchases)		X	
	Bad Debts Recovered		X	X
5.	Operating Expenses (a+ b+ c)			
	(A) Office and Administrative Expenses:			
	Salaries	X		
	Office Rent	X		
	Insurance	X		
	Printing and Salaries	X		
	Postage and Telegram	X		
	Telephone Charges	X		
	Audit Fees	X		
	Legal Fees	X		
	Directors Fees	X		
	Dep. On Office Building/Furniture/Equipment	X		
	Repairs to Office Building/Furniture	X		
	Sundry Expenses	X		
	Conveyance	X		
	Rates and Taxes	X		
	Electricity Charges	X	X	
	(B) Selling and Distribution Expenses:			

	Advertisements	X		
	Commission on Sales	X		
	Salesman Salary	X		
	Depreciation on Delivery Van/Motor Car	X		
	Carriage Outward	X		
	*Bad Debts	X		
	Showroom Rent	X		
	Exhibition Expenses	X		
	Warehouse Rent/Insurance/Repairs	X		
	*Discount Allowed	X		
	Sales Promotion Expenses	X		
	After Sales Service Expenses	X		
	Trade Fair Expenses	X		
	Travelling Expenses	X	X	
(C)	Finance Expenses:			
	*Interest on Debentures	X		
	*Interest on Loans	X		
	*Interest on Overdraft	X		
	Cash Discount	X		
	Discount on Bills of Exchange	X		
	Rebate on Bills of Exchange	X		
	Bank Charges	X		
	Bank Commission	X		
	Loss on Issue of Shares Writtenoff	X		
	Commission to Raise Loans	X	X	X
6.	Operating Profit (3+4-5)			X
7.	Non Operating Income:			
	Dividend and Interest on Investments		X	
	Commission Received		X	
	Rent Received		X	
	Share Transfer Fees		X	
	Profit on Sale of Assets/Investments		X	
	Royalty Received		X	X
8.	Non Operating Expenses:			
	Loss on Sale of Assets/Investments		X	
	Loss by Fire/ Theft/ Accident		X	
	Goodwill Writtenoff		X	
	Preliminary Expenses Writtenoff		X	
	Under Writing Commission w/off		X	
	Fine or Penalty for Breach of Law		X	
	Issue Expenses Writtenoff		X	X
9.	Net Profit Before Tax (6+7-8)			X
	Less: Provision for Tax			X
10.	Net Provision After Tax			X
	Add: Operating Retained Earning b/d			X
	Excess Provision for Tax (Previous Year)			X
	Profit Available for Tax Appropriation			X
	Less: Proposed Dividend (Equity/ Preference Shares)		X	

Transfer to Reserve		X	
Interim Dividend		X	
Short Provision for Tax (Previous Year)		X	X
Closing Retained Earning c/d			X

Illustration 1: From the following balances prepare balance sheet in (a) horizontal form (b) vertical form as on 31st March, 2014.

	₹
Equity Share Capital	5,000
Preference Share Capital	3,000
General Reserve	2,000
Profit & Loss A/c (Cr)	1,000
Fixed Capital	8,000
Current Assets	4,000
Current Liabilities	3,000

Financial Position Statement as on 31 March, 2014

Particulars		₹	₹
I.	Sources of Funds:		
1.	Share Holders Funds		
	Equity Share Capital	5,000	
	Preference Share Capital	3,000	
		8,000	
	<i>Add:</i> Reserve & Surplus:		
	General Reserve	2,000	
	P/L A/c	1,000	
		3,000	
		11,000	
	<i>Less:</i> Fictitious Assets-Preliminary Expenses	1,500	9,500
2.	Long-term Liabilities:		
	Debentures		500
3.	Net Fund Employed (1+2)		10,000
II.	Application of Funds:		
1.	Fixed Assets		8,000
2.	Investments		1,000
3.	Working Capital (A-B)		
	(A) Current Assets	4,000	
	(B) Current Liabilities	3,000	1,000
4.	Net Assets Owned (1+2+3)		10,000

Illustration 2:

Liabilities	₹	Assets	₹
Equity Share Capital	3,90,000	Cash in Hand	15,000
10% Preference Share Capital	2,00,000	Cash at Bank	90,000
9% Debenture	2,50,000	Preliminary Expenses	20,000
General Reserve	60,000	Goodwill	1,00,000
Capital Reserve	50,000	Building	3,00,000
11% Bank Loan	1,00,000	Investment (Long-term)	2,00,000
Creditors	1,25,000	Furniture	2,50,000
Bank Overdraft	1,35,000	Plant and Machinery	3,00,000

Provision for Tax	1,40,000	Debtors	1,50,000
Proposed Dividend	30,000	Prepaid Expenses	50,000
Profit and Loss A/c	1,40,000	Stock	2,00,000
Depreciation Provision	80,000	Calls in Arrears (equity)	10,000
		Commission on Issue of Shares	15,000
	17,00,000		17,00,000

Present the above Balance Sheet in Vertical form and show the following:

(1) Net worth, (2) Borrowed fund, (3) Capital employed, (4) Net block, (5) Working capital, (6) Fictitious assets

Solution:

No.	Particulars	₹	₹	₹
I.	Sources of Funds			
1.	Shareholder's Funds/Net worth:			
	(a) Share Capital:			
	Equity Share Capital	3,90,000		
	Less: Calls in Arrears	10,000	3,80,000	
	10% Preference Share Capital		2,00,000	
			5,80,000	
	(b) Reserves:			
	General Reserve	60,000		
	Capital Reserve	50,000		
	P/L A/c	1,40,000	2,50,000	
			8,30,000	
	(c) Fictitious Assets:			
	Preliminary Expenses	20,000		
	Commission on Issue of Shares	15,000	35,000	7,95,000
2.	Long-term Liabilities:			
	9% Debentures		2,50,000	
	11% Bank Loan		1,00,000	3,50,000
3.	Net Fund Employed (1+2)			11,45,000
II.	Application on Funds:			
1.	Fixed Assets:			
	Gross block		1,00,000	
	Goodwill			
	Building	3,00,000		
	Plant and Machinery	3,00,000		
	Furniture	2,50,000		
		8,50,000		
	Less: Depreciation furniture	80,000	7,70,000	
2.	Investment (Long-term)			8,70,000
3.	Working Capital:			
	Current Assets:			
	Quick Assets:			
	Cash in hand	15,000		
	Cash at bank	90,000		
	Debtors	1,50,000	2,55,000	

4.	Non Quick Assets:			
	Prepaid expenses	50,000		
	Stock	2,00,000	2,50,000	
		(A)	5,05,000	
	Current Liabilities:			
	Quick Liabilities:			
	Creditors	1,25,000		
	Provision for Tax	1,40,000		
	Propose Dividend	30,000	2,95,000	
	Non-Quick Liabilities:			
	Bank Overdraft	1,35,000	1,35,000	
		(B)	4,30,000	
		(A-B)		75,000
	Net Assets Owned (1+2+3)			11,45,000

Illustration 3: Following is the Profit and Loss Account of well-balanced limited for the year ended 31st March, 2014. You are required to prepare vertical income statement for purpose of analysis.

Particulars	₹	Particulars	₹	₹
To Opening Stock	7,00,000	By Sales		
To Purchases	9,00,000	Cash	5,20,000	
To Wages	1,50,000	Credit	15,00,000	
To Factory Expenses	3,50,000		20,20,000	
To Office Salaries	25,000	Less: Returns & Allowances	20,000	20,00,000
To Office Rent	39,000			
To Postage and Telegram	5,000	By Closing Stock		6,00,000
To Directors Fees	6,000	By Dividend on Investment		10,000
To Salesman Salaries	12,000	By Profit on Sale of Furniture		20,000
To Advertising	18,000			
To Delivery Expenses	20,000			
To Debenture Interest	20,000			
To Depreciation				
On Office Furniture	10,000			
On Plant	30,000			
On Delivery Van	20,000			
To Loss on Sale of Van	5,000			
To Income Tax	1,75,000			
To Net Profit	1,45,000			
	26,30,000			26,30,000

M/s. Well-balanced Ltd.
Income Statement as on 31st March, 2014.

No.	Particulars	₹	₹	₹
1.	Net Sales:			
	Cash		5,20,000	
	Credit		15,00,000	
			20,20,000	
	Less: Return & Allowances		20,000	20,00,000

2.	Cost of goods Sold:			
	Opening Stock	7,00,000		
	<i>Add:</i> Purchases	9,00,000		
	Wages	1,50,000		
	Factory Expenses	3,50,000		
	Depreciation on Plant	30,000	21,30,000	
	<i>Less:</i> Closing Stock		6,00,000	15,30,000
3.	Gross Profit (1-2)			4,70,000
4.	Operating Expenses:			
	Office & Administration Expenses			
	Office Salaries	25,000		
	Office Rent	39,000		
	Postage and Telegram	5,000		
	Directors Fees	6,000		
	Depreciation on Office Furniture	10,000	85,000	
	Selling & Distribution Expenses:			
	Salesman Salary	12,000		
	Advertising	18,000		
	Delivery Expenses	20,000		
	Depreciation on Delivery Van	20,000	70,000	
	Finance Expenses:			
	Debenture Interest		20,000	1,75,000
5.	Operating Profits (3-4)			2,95,000
6.	Non Operating Income:			
	Dividend on Investment		10,000	
	Profit on Sale of Furniture		20,000	30,000
7.	Non Operating Expenses:			
	Loss on Sale of Van			5,000
8.	Net Profit Before Tax			3,20,000
	<i>Less:</i> Income Tax			1,75,000
9.	Net Profit After Tax			1,45,000

Illustration 4: The accountant of company submits the following financial statements for 2014.

Trading and Profit Loss A/c for the year ended 31st December, 2013.

Expenses	₹	Income	₹
To Opening Stock	35,000	By Sales	8,30,000
To Purchase	7,50,000	By Closing Stock	80,000
To Gross Profit	1,25,000		
	9,10,000		9,10,000
To Depreciation	18,000	By Gross Profit	1,25,000
To Other Expenses	37,000	By Interest	5,000
To Tax Provision	20,000		
To Proposed Dividend	8,000		
To Net Profit	47,000		
	1,30,000		1,30,000

Balance Sheet as on December 2013.

Liabilities	₹	Assets	₹
Share Capital	1,50,000	Cash	24,000
Bank Overdraft	19,000	Stock	80,000
Creditors	13,000	Debtors	69,250
Depreciation Provision	27,875	Land & Buildings	46,075
Tax Provision	20,000	Machinery/Equipment	64,300
Proposed Dividend	8,000	Prepaid Expenses	750
Profit & Loss A/c	90,000	Goodwill	10,000
		Preliminary Expenses	3,500
		Loans	30,000

Rearrange the above in a form suitable to analysis.

Solution:

	Particulars	₹	₹	₹
1.	Net Sales			8,30,000
2.	Cost of goods sold			
	Opening stock		35,000	
	Add: Purchases		7,50,000	
			7,85,000	
	Less: Closing Stock		80,000	7,05,000
3.	Gross Profit (1-2)			1,25,000
4.	Operating Expenses:			
	Depreciation		18,000	
	Other Expenses		37,000	55,000
5.	Operating Profit (3-4)			70,000
6.	Non Operating Income:			
	Interest			5,000
7.	Net Profit before Tax			75,000
	Less: Tax Provision			20,000
8.	Net Profit after Tax			55,000
	Less: Proposed Dividend			8,000
9.	Closing Stock Earnings c/d			47,000

Financial Position Statement as on 31st December, 2013.

	Particulars	₹	₹	₹
I.	Sources of Funds:			
1.	Share Holder Funds:			
	Share Capital		1,50,000	
	Add: Reserve & Surplus:			
	Profit & Loss A/c		90,000	
			2,40,000	
	Less: Fictitious Assets:			
	Preliminary Expenses		3,500	2,36,500
2.	Long term Liabilities:			—
3.	Net Fund Employed (1+2)			2,36,500
II.	Application of Funds:			
1.	Fixed Assets:			

	Goodwill		10,000	
	Land and Buildings		46,075	
	Machinery/Equipment		64,300	
			1,20,000	
	Less: Depreciation		27,875	92,500
2.	Working Capital (A-B)			
	(A) Current Assets:			
	Quick Assets:			
	Cash	24,000		
	Debtors	69,250		
	Loans	30,000	1,23,250	
	Non Quick Assets:			
	Stock	80,000		
	Prepaid Expenses	750	80,750	
		(A)	2,04,000	
	(B) Current Liabilities:			
	Quick Liabilities:			
	Creditors	13,000		
	Tax Provision	20,000		
	Proposed Dividend	8,000	41,000	
	Non Quick Liabilities:			
	Bank Overdraft		19,000	
		(B)	60,000	1,44,000
3.	Net Assets Owned (1+2)			2,36,500

Illustration 5: The following information regarding maruti car Ltd. for the year ended 31st March, 2014. is given to you.

Particulars	₹
Sales	75,00,000
Purchases	50,00,000
Opening Stock (01/04/2006)	5,00,000
Closing Stock (31/3/2013)	7,50,000
Return Inward	75,000
Carriage Outward	57,000
Carriage Inward	50,000
Return Outward	50,000
Salesman Salary	75,000
Advertising and Publicity	2,52,000
Salesman Travelling Allowance	7,500
Office Salary	4,00,000
Computer Repairs and Maintenance	84,000
Rent, Rates & Taxes	4,000
Printing and Stationary	400
Bad Debts	75,750
Purchase of Computer	40,000
Dividend of Shares (Cr)	10,000
Staff Welfare Expenses	44,000
Interest (Dr)	50,000
Loss on Sales of Shares	1,25,000

Rearrange above information in vertical from suitable for analysis.

Solution:

M/s Maruti Car Ltd.
Income Statement for the year ended 31st March, 2014.

No.	Particulars	₹	₹	₹
1.	Net Sales:			
	Sales		75,00,000	
	Less: Return Inward		75,000	74,25,000
2.	Cost of Food Sold:			
	Opening Stock		5,00,000	
	Add: Purchases	50,00,000		
	Less: Return Outward	50,000	49,50,000	
	Carriage Inward		50,000	
			55,00,000	
	Less: Closing Stock		7,50,000	47,50,000
				26,75,000
3.	Gross Profit (1-2)			
4.	Operating Expenses: (A + B + C)			
	(A) Office & Administrative Expenses:			
	Office Salary	4,00,000		
	Computer Repairs & Maintenance	84,000		
	Rent, Rates and Taxes	4,000		
	Printing and Stationary	400		
	Staff Welfare Expenses	44,000	5,32,400	
	(B) Selling & Distribution Expenses:			
	Carriage Outward	57,000		
	Salesman Salary	75,000		
	Advertising and Publicity	2,52,000		
	Salesman Travelling Allowances	7,500		
	Bad Debts	75,750	4,67,250	
	(C) Finance Expenses:			
	Interest		50,000	10,49,650
5.	Operating Profit (3 – 4)			16,25,350
6.	Non Operating Income: Dividend on Shares			10,000
7.	Non Operating Expenses:			
	Loss on Sales of Shares			1,25,000
8.	Net Profit (5 + 6 – 7)			15,10,350

Illustration 6: [Financial Statement]

Trail Balance as on 31st March, 2002 is furnished to you of M/s Pady Ltd

Particulars	Debit (₹)	Credit (₹)
Debtors Accounts	5,00,000	20,000
Creditors Accounts	12,000	4,80,000
Cash and Bank Balance	38,000	–
Building and Provision for Depreciation	1,20,000	40,000
Machinery and Provision for Depreciation	6,00,000	2,80,000
Vehicles and Provision for Depreciation	50,000	30,000
Stock of Finished Goods (on 1-4-2001)	30,000	–
Cost of Production	20,92,500	–
Sales	–	25,00,000
Office Expenses	20,000	–

Selling and Distribution Expenses	3,10,000	–
Prepaid and Outstanding Expenses	8,000	15,000
Advance Tax Paid	1,50,000	–
Provision for Income Tax (on 1-4-2001)	–	1,40,000
Investments (at cost)	8,40,000	–
Profit on sale of Investments	–	15,000
Dividend Received	–	30,000
Interim Dividend	50,000	–
Equity Share Capital (₹ 10 each)	–	8,00,000
Reserve on 1.4.2001	–	5,00,000
Profit and Loss A/c on 1.4.2001	–	63,000
Closing Stock of Materials and Work-in-Process	92,500	–
	49,13,000	49,13,000

On 31st March, 2002 stock of finished goods was ₹ 50,000. Provide for income tax at 30% of profits and proposed dividend at Re. 1 per share. Prepare final accounts in suitable form for analysis.

Solution:

M/s Pady Ltd.

Income Statement for the year ended 31st March, 2013.

No.	Particulars	₹	₹	₹
1.	Net Sales			25,00,000
2.	Cost of Goods Sold:		30,000	
	Opening Stock of Finished Goods		20,92,500	
	Add: Cost Of Production		21,22,500	
	Less: Closing Stock of Finished Goods		50,000	20,72,500
	Gross Profit (1 - 2)			
3.	Operating Expenses:			4,27,500
4.	Office Expenses		20,000	
	Selling and Distribution Expenses		3,10,000	
	Operation Profit (3 – 4)			3,30,000
5.	Non-operating Income:			97,500
6.	Profit and Sale of Investment			
	Dividend Received		15,000	
	Net Profit Before Tax (5 – 6)		30,000	45,000
7.	Less: Tax 30%			1,42,500
	Net Profit After Tax			42,750
8.	Add: Operating Retained Earnings b/d			99,750
	Profit Available for Appropriation			63,000
	Less: Interim Dividend			1,62,750
	Proposed Dividend (80,000 * 1)		50,000	
9.	Closing Retained Earnings c/d		80,000	1,30,000
				32,750

Financial Position Statement as on 31st March, 2013

No.	Particulars	₹	₹	₹
I.	Sources of Funds:			
1.	Shareholder Funds:			
	Equity Share Capital (80,000 * 1)		8,00,000	
	Add: Reserves & Surplus:			
	Reserve	5,00,000		
	Profit & Loss A/c	32,750	5,32,750	13,32,750

2.	Long term Liabilities			—
3.	Net Fund Employed (1 – 2)			13,32,750
II. Application of Funds:				
(1)	Fixed Assets:			
	Buildings	1,20,000		
	Less: Provision for Depreciation	40,000	80,000	
	Machinery	6,00,000		
	Less: Provision for Depreciation	2,80,000	3,20,000	
	Vehicles	50,000		
	Less: Provision for Depreciation	30,000	20,000	4,20,000
2.	Investments			8,40,000
3.	Working Capital (A – B)			
	(A) Current Assets:			
	Quick Assets:			
	Debtors	5,00,000		
	Less: Advance from Debtors	20,000	4,80,000	
	Cash & Bank		38,000	
			5,18,000	
	Non-Quick Assets:			
	Stock of Raw Materials	92,500		
	Stock of Finished Goods	50,000		
	Prepaid Expenses	8,000		
	Advance Tax	1,50,000	3,00,500	
	(A)		8,18,500	
	(B) Current Liabilities:			
	Quick Liabilities:			
	Creditors	4,80,000		
	Less: Advance to Creditors	12,000	4,68,000	
	Outstanding Expenses		15,000	
	Provision for Tax (LY)		1,40,000	
	Provision for Tax (CY)		42,750	
	Proposed Dividend		80,000	
	(B)		7,45,750	
	(A – B)			72,750
4.	Net Assets Owned (1 + 2 + 3)			13,32,750

Illustration 7: Following balances are extracted from the books of Tax and Trouble limited for the year ended 31-03-2014. You are required to prepare Vertical Income Statement and Vertical Balance Sheet after considering other information provided:

Particulars	₹
Premises	3,07,500
Machinery	3,60,000
Interim Dividend Paid	7,500
Purchases	1,80,000
Preliminary Expenses	5,000
Carriage Inward	13,100
Directors Fees	5,740
Bad Debts	2,110
6% Debentures	3,00,000
P & L A/c (Cr.) Balance	14,500
Creditors	40,000

Outstanding Expenses	10,000
General Reserve	25,000
4 % Government Securities	60,000
Opening Stock	66,000
Furniture & Fixtures	7,200
Debtors	87,000
Goodwill	25,000
Cash in Hand and Bank	30,000
Bills Receivable	10,650
Wages	84,800
Factory Expenses	9,000
General Expenses	7,900
Salaries	14,500
Debenture Interest	18,000
Equity Capital	3,60,000
10 % Preference Shares	1,00,000
Bills Payable	38,000
Sales	4,18,000
Sales Returns	3,000
Interest Received	3,500
Advertising	5,000

Other Information:

- Depreciate machinery by 10% and furniture by 5%.
- Provide final dividend on equity shares at 5% and Dividend on preference shares.
- Make provision for Income Tax at 25,000.
- Closing stock on 31-03-2014 is 1,01,000.
- General expenses include 4,000 as selling expenses.
- Write off 50% of preliminary expenses.

Solution:**M/s Tax and Trouble Ltd.****Income Statement for the year ended 31st March, 2014.**

	Particulars	₹	₹	₹
1.	Net Sales		4,18,000	
	Less: Sales Return		3,000	4,15,000
2.	Cost of Goods Sold:			
	Opening Stock		66,000	
	Add: Purchases		1,80,00	
	Carriage Inward		13,100	
	Wages		84,800	
	Factory Expenses		9,000	
	Depreciation on Plant and Machinery		36,000	
			3,88,900	
	Less: Closing Stock		1,01,000	2,87,900
3.	Gross Profit (1-2)			1,27,100
4.	Operating Expenses:			
	Office and Administrative Expenses:			
	Directors Fees	5,740		
	General Expenses (7,900-4,000)	3,900		
	Salaries	14,500		

	Depreciation on Furniture	360	24,500	
	Selling and Distribution Expenses:			
	Selling Expenses	4,000		
	Bad Debts	2,110		
	Advertising	5,000	11,110	
	Finance Expenses:			
	Debenture Interest		18,000	53,610
5.	Operating Profit (3-4)			73,490
6.	Non-operating Income:			
	Interest Received			3,500
7.	Non-operating Expenses:			
	Preliminary Expenses w/off			2,500
8.	Net Profit Before Tax (5 + 6 – 7)			74,490
	Less: Tax			25,000
9.	Net Profit after Tax			49,490
	Add: Operating Retained Earnings b/d			14,500
	Profit Available for Appropriation			63,990
	Less: Interim Dividend Paid		7,500	
	Dividend on Equity Share Capital		18,000	
	Dividend on Preference Share Capital		10,000	35,000
10.	Closing Retained Earnings c/d.			28,490

Financial Position Statement as on 31st March, 2014.

Particulars		₹	₹	₹
I.	Sources of Funds:			
(1)	Share Holder Funds:			
	Equity Share Capital		3,60,000	
	Add: 10% Preference Share Capital		1,00,000	
			4,60,000	
	Add: Reserve & Surplus:			
	Profit & Loss	28,490		
	General Reserve	25,000	53,490	
			5,13,490	
	Less: Fictitious Assets			
	Preliminary Expenses (not w/off)		2,500	5,10,990
2.	Long-term Liabilities:			
	6% Debentures			3,00,000
3.	Net Fund Employed (1 + 2)			8,10,990
II.	Application of Funds:			
1.	Fixed Assets:			
	Goodwill		25,000	
	Premises		3,07,000	
	Machinery	3,60,000		
	Less: Depreciation	36,000	3,24,000	
	Furniture & Fixtures	7,200		
	Less: Depreciation	360	6,840	6,63,340
2.	Investments:			
	4% Government Securities			60,000

3.	Working Capital (A-B)			
	(A) Current Assets:			
	Quick Assets:			
	Debtors	87,000		
	Cash/Bank	30,000		
	Bills Receivable	10,650	1,27,650	
	Non Quick Assets:			
	Closing Stock		1,01,000	
	(A)		2,28,650	
	(B) Current Liabilities:			
	Quick Liabilities:			
	Creditors	40,000		
	Outstanding Expenses	10,000		
	Bills Payable	38,000		
	Provision for Tax	25,000		
	Preference Dividend	10,000		
	Equity Dividend	18,000	1,41,000	
	(A-B)			87,650
	Net Asset Owned (1+2+3)			8,10,990

Illustration 8:

Prepare Comparative Balance Sheet as on 31st March, 2014 and comment on it,

Liabilities	2013 (₹)	2014 (₹)	Assets	2013 (₹)	2014 (₹)
Shares Capital	1,40,000	1,60,000	Buildings	1,10,000	1,60,000
P/L A/c	40,000	40,000	Machinery	86,000	1,00,000
Debentures	40,000	60,000	Stock	50,000	10,000
Other Second Loans	20,000	40,000	Debtors	30,000	20,000
Creditors	20,000	6,000	Cash	4,000	30,000
Bank Overdraft	16,000	8,000			
Outstanding Expenses	4,000	6,000			
	2,80,000	3,20,000		2,80,000	3,20,000

Solution: Comparative Financial Position as on 31st March, 2014

No.	Particulars	2013 (₹)	2014 (₹)	Increase/ Decrease (₹)	Increase/ Decrease (%)
I.	Sources of Funds:				
1.	Shareholders Funds:				
	Share Capital	1,40,000	1,60,000	20,000	14.29
	Add: Reserves & Surplus:				
	P/L A/c	40,000	40,000	--	--
		1,80,000	2,00,000	20,000	11.11
2.	Long Term Liabilities:				
	Debentures	40,000	60,000	20,000	50.00
	Other Secured Loans	20,000	40,000	20,000	100.00
		60,000	1,00,000	40,000	66.67
3.	Net Fund Employed (1 + 2)	2,40,000	3,00,000	60,000	25.00

II. Application of Funds:					
1.	Fixed Assets:				
	Buildings	1,10,000	1,60,000	50,000	45.45
	Machinery	86,000	1,00,000	14,000	16.28
		1,96,000	2,60,000	64,000	32.65
2.	Working Capital (A –B)				
	(A) Currents Assets: (QA + NQA)				
	Quick Assets:				
	Debtors	30,000	20,000	(10,000)	(33.33)
	Cash	4,000	30,000	26,000	650.00
		34,000	50,000	16,000	47.06
	Non-Quick Assets:				
	Stock	50,000	10,000	(40,000)	(80.00)
	(A)	84,000	60,000	(24,000)	(28.57)
	(B) Current Liabilities:				
	Quick Liabilities:				
	Creditors	20,000	6,000	(14,000)	(70.00)
	Outstanding Expenses	4,000	6,000	2,000	50.00
		24,000	12,000	(12,000)	(50.00)
	Non-Quick Liabilities				
	Bank Overdraft	16,000	8,000	(8,000)	(50.00)
	(B)	40,000	20,000	(20,000)	(50.00)
	(A –B)	44,000	40,000	(4,000)	(9.09)
3.	Net Assets Owned (1 + 2)	2,40,000	3,00,000	60,000	25.00

Illustration 9: [Comparative / Financial Statement]

From the following financial statement of Vaibhav Ltd. Prepare Comparative Financial Statements (in vertical From)

Balance Sheet as on

Liabilities	31-12-13 ₹	31-12-14 ₹	Assets	31-12-13 ₹	31-12-14 ₹
Equity Share Capital	4,00,000	4,00,000	Land	2,00,000	2,40,000
9% Pref. Share Capital	3,00,000	3,00,000	Factory Plant & Building	6,00,000	5,40,000
General Reserves	2,00,000	2,45,000	Stocks	2,00,000	3,00,000
Tax Payable	1,00,000	1,50,000	Debtors	2,00,000	3,00,000
Creditors	2,00,000	2,75,000	Cash	1,00,000	1,40,000
17% Debentures	1,00,000	1,50,000			
	13,00,00	15,20,000		13,00,000	15,20,000

Profit & Loss A/c for the year ended

Particulars	31-12-13 ₹	31-12-14 ₹	Particulars	31-12-13 ₹	31-12-14 ₹
Cost of Goods Sold	6,00,000	7,50,000	Sales	8,00,000	10,00,000
Administrative Expenses	30,000	40,000			
Selling Expenses	20,000	20,000			
Net Profit	1,50,000	1,90,000			
	8,00,000	10,00,000			
	8,00,000	10,00,000		8,00,000	10,00,000

Solution: Comparative Income Statement for the year ended

Particulars		31-12-13 (₹)	31-12-14 (₹)	Increase/ Decrease (₹)	Increase/ Decrease (%)
1.	Net Sales	8,00,000	10,00,000	2,00,000	25.00
2.	Cost of Goods Sold	6,00,000	7,50,000	1,50,000	25.00
3.	Gross Profit (1 – 2)	2,00,000	2,50,000	50,000	25.00
4.	Operating Expenses:				
	Administrative Expenses	30,000	40,000	10,000	33.33
	Selling Expenses	20,000	20,000	--	--
5.	Net Profit (3 – 4)	50,000	60,000	10,000	20.00
		1,50,000	1,90,000	40,000	26.67

Comparative Financial Position Statement as on

No.	Particulars	31-12-13 (₹)	31-12-14 (₹)	Increase/ Decrease (₹)	Increase/ Decrease (%)
I.	Sources of Funds:				
1.	Shareholders Funds:				
	Equity Share Capital	4,00,000	4,00,000	–	–
	Add: 9% Preference Share Capital	3,00,000	3,00,000	–	–
		7,00,000	7,00,000	–	–
	Add: Reserve & Surplus:				
	General Reserve	2,00,000	2,45,000	45,000	22.50
		9,00,000	9,45,000	45,000	5.00
2.	Long Term Liabilities:				
	17% Debentures	1,00,000	1,50,000	50,000	50.00
3.	Net Fund Employed (1 + 2)	10,00,000	10,95,000	95,000	9.50
II.	Application of Funds:				
1.	Fixed Assets:				
	Land	2,00,000	2,40,000	40,000	20.00
	Factory Plant & Machinery	6,00,000	5,40,000	(60,000)	(10.00)
		8,00,000	7,80,000	(20,000)	(2.50)
2.	Working Capital (A – B)				
	(A) Current Assets:				
	Quick Assets:				
	Debtors	2,00,000	3,00,000	1,00,000	50.00
	Cash	1,00,000	1,40,000	40,000	40.00
		3,00,000	4,40,000	1,40,000	46.67
	Non-Quick Assets: Stock	2,00,000	3,00,000	1,00,000	50.00
		5,00,000	7,40,000	2,40,000	48.00
	(B) Current Liabilities:				
	Quick Liabilities:				
	Tax Payable	1,00,000	1,50,000	50,000	50.00
	Creditors	2,00,000	2,75,000	75,000	37.50
		3,00,000	4,25,000	1,25,000	41.67
3.	Net Assets Owned (1 + 2)	2,00,000	3,15,000	1,15,000	57.50
		10,00,000	10,95,000	95,000	9.50

Comments: The difference in General Reserve is ₹ 45,000 that means out of Net Profit ₹ 1,90,000 & ₹ 45,000 is transferred to General Reserve in 2013. So the balance P/L A/c = ₹ 1,90,000 – 45,000 = 1,45,000

Remaining Balance Sheet Must be Utilised for:

	₹
Dividend on Preference Shares	27,000
Tax Provision	50,000
Debenture Interest	25,500
Dividend on Equity Share	42,500
	1,45,000
Cash Gross Profit for 2013	2,50,000
Add: Dep. On Factory Plant & Building	60,000
	3,10,000

Illustration 10: Xenophobia Ltd. Presents with their summarised profit & loss account with a request to convert the same into a common size statement in vertical form after incorporating the Information given thereunder:

Particulars	₹	Particulars	₹
To Opening Balance b/f	2,00,000	By Sales	20,00,000
To Opening Stock		By Miscellaneous Receipts	1,20,000
Finished Goods	3,00,000	By Closing Stock	
Raw Materials	3,00,000	Finished Goods	6,00,000
To Purchases:		Raw Materials	4,00,000
Raw Materials	9,00,000		
Finished Goods	1,00,000		
To Salaries and Wages	2,00,000		
To Office & Administration Expenses	3,92,000		
To Audit Fees	5,000		

Solution:

M/s Xenophobia Ltd.

Common Size Income Statement for the year ended

Particulars	₹	₹	% Net Sales
1. Net Sales		20,00,000	100.00
2. Cost of Goods Sold:			
Opening Stock of Raw Materials	3,00,000		15.00
Add: Purchases of Raw Materials	9,00,000		45.00
	12,00,000		60.00
Less: Closing Stock of Raw Materials	4,00,000		20.00
Raw Materials Consumed	8,00,000		40.00
Add: Opening Stock of Finished Goods	3,00,000		15.00
Purchase of Finished Goods	1,00,000		5.00
	12,00,000		60.00
Less: Closing Stock of Finished Goods	6,00,000	6,00,000	30.00
3. Gross Profit (1 – 2)		14,00,000	70.00
4. Operating Expenses (A + B + C):			
Office & Administrative Expenses:			
Salaries & Wages	2,00,000		10.00
Office & Administrative Exp			
(3,92,000 – 12,000)	3,80,000		19.00
Audit Fees			

	Director's Fees	5,000	0.25	
	Depreciation on Furniture	3,000	0.15	
	Depreciation on Motor Car	2,000	0.10	
	Y2K Expenses	3,000	0.15	
	(A)	10,000	0.50	
	Selling & Distribution Expenses:	6,03,000	30.15	
	Selling & Distribution Expenses			
	Bad Assets (Realistic)	1,50,000	7.50	
	(B)	8,000		
	Financial Expenses:	1,58,000		
	Interest on Unsecured Loans	(C)		
	(A + B + C)	13,500		
	Operating Profits (3 – 4)		7,74,500	38.73
5.	Non-operating Income:		6,25,500	31.28
	Miscellaneous Receipts			
	Non-operating Expenses:		1,20,000	6.00
	Preliminary Expenses w/off			
	Net Profit Before Tax (5 + 6 – 7)		10,000	0.50
	Less: Provision for Tax		7,35,500	36.78
	Net Profit After Tax		3,50,000	17.50
	Less: Opening Balance b/d		3,85,500	19.28
	Profit available for appropriation		2,00,000	10.00
	Less: Transfer to General Reserve		1,85,500	9.275
	Interim dividend	20,000		
	Proposed dividend	50,000		
	Closing Retained Earnings c/d	1,10,000	1,80,000	9.00
10.			5,500	0.275

Note:

- (1) Y2K Expenses are to be considered as administration Expenses.
(2) Only realistic bad debts are to be accounted.

Illustration 11:

Following is the Balance Sheet of Bofors Incorporation Limited as at 31-3-2014

Liabilities	₹	Assets	₹
Creditors	2,08,000	Cash	10,000
Advance Income	20,000	Inventory	1,70,000
Provision for Depreciation		Machinery	4,20,000
On Land and Building	60,000	Advances	14,000
On Machinery	70,000	Furniture	2,10,000
On Furniture	80,000	Goodwill	1,54,000
General Reserve	2,46,000	Investments	98,000
10% Debentures	1,54,000	Bank balance	56,000
12% Preference Shares	1,00,000	Preliminary expenses	40,000
Public Deposit	1,00,000	Land and building	5,08,000
Bank Overdraft	1,04,000	Debtors	2,20,000
Equity Capital	5,00,000	Bills Receivable	50,000
Bills Payable	40,000	Patents and Patterns	1,20,000
Profit and Loss A/c	2,60,000	Discounts on Issue of Debentures	22,000
Capital Redemption Reserve	1,00,000		
Total	20,92,000	Total	20,92,000

Information

- (i) General reserve include ₹ 6000 being Reserve for bad debts.
(ii) Marketable investments included in investments is ₹18000.

You are required to prepare common size balance sheet in vertical form.

Solution:

M/s Bofors Incorporation Ltd.

Common Size Financial Position Statement as on 31-03-2014

No.	Particulars	₹	₹	% of Nfe/Nao	
				%	%
I.	Source of Funds:				
1.	Shareholders Funds:				
	Equity share Capital		5,00,000		35.92
	Add: 12% Preference Share Capital		1,00,000		7.18
			6,00,000		43.10
	Add: Reserve & Surplus:				
	General Reserve	2,46,000		17.67	
	Less: R.d.d	6,000		0.43	
		2,40,000		17.24	
	P/L A/c	2,60,000		18.68	
	Capital Redemption Reserve	100000	6,00,000	7.18	43.10
			1200000		86.21
	Less: Fictitious Assets:				
	Preliminary Expenses	40,000		2.87	
	Discount on Issue of Debentures	22,000	62,000	1.58	4.45
			11,38,000		81.75
2.	Long-term Liabilities:				
	10% Debentures	1,54,000		11.06	
	Public Deposit	1,00,000	2,54,000	7.18	18.25
3.	Net Fund Employed (1+2)		13,92,000		100.00
II	Application of Funds:				
1.	Fixed Assets:				
	Goodwill		1,54,000		11.06
	Patents and Patterns		1,20,000		8.62
	Land and Buildings	5,08,000		36.49	
	Less: Depreciation Provision	60,000		4.31	32.18
	Machinery	4,20,000		30.17	
	Less: Depreciation Provision	70,000	3,50,000	5.03	25.14
	Furniture	2,10,000		15.09	
	Less: Depreciation Provision	80,000	1,30,000	5.75	9.34
			12,02,000		86.35
2.	Investments (98,000-18,000)		80,000		5.75
3.	Working Capital (A-B)				
	Current Assets:				
	Quick Assets:				
	Cash	10,000		0.72	
	Marketable Investments	18,000		1.29	
	Bank Balance	56,000		4.02	
	Debtors 2,20,000				

	Less: R.D.D. 6,000	2,14,000		15.37	
	Bills Receivable	50,000	3,48,000	3.59	25.00
	Non-quick Assets:				
	Inventory	1,70,000		12.21	
	Advances	14,000	1,84,000	1.01	13.22
	(A)		5,32,000		38.22
	Current Liabilities				
	Quick Liabilities:				
	Creditors	2,08,000		14.94	
	Provision for Taxation	50,000		3.59	
	Bills Payable	40,000	2,98,000	2.87	21.41
	Non-quick Liabilities				
	Advance Income	20,000		1.44	
	Bank Overdraft	1,04,000	1,24,000	7.47	8.91
	(A – B)		1,10,000		7.90
4.	Net Assets Owned (1+2+3)		13,92,000		100.00

Illustration 12: From the following information prepare the common size revenue statement with amount and percent for the year ended on 31st march, 2014 in a vertical form suitable for analysis:

Particulars	% on Net Sales of ₹ 5,00 000
Opening Stock	2
Closing Stock	3
Purchases	52
Office Expenses	4.75
Other Administrative Expenses	5.75
Distribution Expenses	6
Selling Expenses	4
Interest (Dr.)	1.50
Indirect Wages	1.50
Direct Wages	2

Provision for income tax is to be made @25% on net profit before tax.

Common Size Revenue Statement for the year ended 31st March, 2014.

No.	Particulars	₹	% of Net Sales
1.	Net Sales	500000	100.00
2.	Less: Cost of Goods Sold:		
	Opening Stock	10000	2.00
	Add: Purchases	260000	52.00
	Direct Wages	10000	2.00
	Indirect Wages	7500	1.50
		287500	57.50
	Less: Closing Stock	15000	3.00
		272500	54.50
3.	Gross Profit (1-2)	227500	45.50
4.	Less: Operating Expenses:		
	Office Expenses	23750	4.75
	Other Administrative Expenses	28750	5.75
	Distribution Expenses	30000	6.00

	Selling Expenses	20000	4.00
	Interest (Finance Expenses)	7500	1.50
		110000	22.00
5.	Net Profit Before Tax (3-4)	117500	23.50
	Less: Provision for Income Tax (25% on 1,17,500)	29375	5.875
6.	Net profit after tax	88,125	17.625

Illustration 13: Pass and fail are partners of a firm carrying on business

(i) Their Position are as on 31st December, 2012, 2013 and 2014 are as follows.

Liabilities	31.12.14	31.12.13	31.12.12	Assets	31.12.14	31.12.13	31.12.12
Partners Capital	4,00,000	3,40,000	3,00,000	Fixed Assets	4,00,000	3,60,000	2,80,000
General Reserve	1,00,000	1,00,000	1,00,000	Current Assets:			
Secured Loans	60,000	60,000	50,000	Stock	1,60,000	1,50,000	1,35,000
Unsecured Loans	1,60,000	1,80,000	1,40,000	Debtors	2,00,000	1,60,000	1,40,000
Sundry Creditors	1,60,000	90,000	45,000	Loan & Advance	1,00,000	80,000	60,000
				Bank Balance	20,000	20,000	20,000
	8,80,000	7,70,000	6,35,000		8,80,000	7,70,000	6,35,000

(ii) Summarised Income Statement for the year ended:

Particulars	31.12.14	31.12.13	31.12.12
Sales	40,00,000	36,00,000	30,00,000
Less: cost of sales	28,00,000	24,00,000	20,00,000
Gross profit	12,00,000	12,00,000	10,00,000
Less: expenses	8,00,000	8,00,000	7,00,000
Net profit	4,00,000	4,00,000	3,00,000

Work out trend percentage and given your interpretation on the same.

Solution:

(i) M/s PASS and FAIL Firm Trend Analysis Financial Position Statement

Particulars		₹			₹ In (2012 as base year)		
		31.12.12	31.12.13	31.12.14	31.12.12	31.12.13	31.12.14
I.	Sources of Funds:						
1.	Shareholders Funds:						
	Partners capital	3,00,000	3,40,000	4,00,000	100	113.33	133.33
	General reserve	1,00,000	1,00,000	1,00,000	100	100	100
		4,00,000	4,40,000	5,00,000	100	110	125
2.	Long-term Liabilities:						
	Secured Loans	50,000	60,000	60,000	100	120	120
	Unsecured Loans	1,40,000	1,80,000	1,60,000	100	128.57	114.29
		1,90,000	2,40,000	2,20,000	100	126.32	115.79
3.	Net fund Employed (1+ 2)	5,90,000	6,80,000	7,20,000	100	115.25	122.03
II.	Application of Funds:						
1.	Fixed Assets	2,80,000	3,60,000	4,00,000	100	128.57	142.36
2.	Working Capital (A – B)						
	(A) Current Assets (i + ii)						
	Quick assets						
	Debtors	1,40,000	1,60,000	2,00,000	100	114.29	142.86

	Loans & Advances	60,000	80,000	1,00,000	100	133.33	166.67
	Bank	20,000	20,000	20,000	100	100	100
	(i)	2,20,000	2,60,000	3,20,000	100	118.18	145.45
	Non-quick assets:						
	Stock	1,35,000	1,50,000	1,60,000	100	111.11	118.52
	(ii)	3,55,000	4,10,000	4,80,000	100	115.49	135.21
	(i + ii)						
	(B) Current Liabilities:						
	Sundry Creditors	45,000	90,000	1,60,000	100	200	355.56
	(A – B)	3,10,000	3,20,000	3,20,000	100	103.23	103.23
3.	Net Assets Owned (1 + 2)	5,90,000	6,80,000	7,20,000	100	115.25	122.03

Trend Analysis

Income Statement for The year 31st March.....

Particular		₹			₹ in % (2013 as base year)		
		31.3.12	31.3.13	31.3.14	31.3.12	31.3.13	31.3.14
1.	Net Sales	30,00,000	36,00,000	40,00,000	100	120	133.33
2.	Cost of Sales	20,00,000	24,00,000	28,00,000	100	120	140
3.	Gross Profit (1-2)	10,00,000	12,00,000	12,00,000	100	120	120
4.	Operating Expenses	7,00,000	8,00,000	8,00,000	100	114.29	114.29
5.	Net Profit (3-4)	3,00,000	4,00,000	4,00,000	100	13.33	133.33

Illustration 14: Rearrange the Balance Sheet in vertical form and calculated the trend Percentage taking 1992 figures as 100 and briefly comment on the same.

Balance Sheet as on 31st December

(₹ in lack)

liabilities	2011	2012	2013	2014	Assets	2011	2012	2013	2014
Share Capital	60	60	80	80	Building	50	60	55	80
Reserve	50	45	20	20	Goodwill	50	45	40	40
Surplus	13	32	31	40	Machinery	20	40	43	50
Debentures	10	20	20	30	Stock	05	15	25	05
Secured Loans	12	08	10	20	Debtors	20	14	15	10
Creditors	06	08	10	03	Cash	05	01	02	15
Bank Overdraft	01	02	08	04	Preliminary exp.	03	02	01	–
Other Liabilities	01	02	02	03					
	153	177	181	200		153	177	181	200

Trend Analysis

Financial Position Statement as on 31st December

No.	Particulars	₹ in Lakh				₹ in Lakh			
		2011	2012	2013	2014	2011	2012	2013	2014
I.	Sources of Fund								
1.	Shareholders Fund:								
	Share Capital	60	60	80	80	100	100	133.33	133.33
	(+) Reserve	50	45	20	20	100	90	40	40
	(+) Surplus	13	32	31	40	100	246.15	238.46	307.69
		123	137	131	140	100	111.38	106.50	113.82
	Less: Fictitious Assets:								

	Premilary Exp.	03	02	01	-	100	66.67	33.33	-
	Debentures	10	20	20	30	100	200	200	300
2.	Long-term Liabilities:								
	Secured Loans	12	8	10	20	100	8.33	66.67	166.67
		22	28	30	50	100	127.27	136.36	227.27
3.	Net fund employed (1+2)	142	163	160	190	100	114.79	112.68	133.80
II. Application of Funds:									
1.	Fixed assets:								
	Goodwill	50	45	40	40	100	90	80	80
	Building	50	60	55	80	100	120	110	160
	Machinery	20	40	43	50	100	200	215	250
		120	145	138	170	100	120.33	115	141.67
2.	Working Capital (A-B)								
	(A) Current Assets (i + i i)								
	Quick assets:								
	Debtors	20	14	15	10	100	70	75	50
	Cash	05	01	02	15	100	20	40	300
		25	15	17	25	100	60	68	100
	Non-quick Assets:								
	Stock (ii)	05	15	25	05	100	300	500	100
	(i+ii)	30	30	42	30	100	100	140	100
	(B) Current Liabilities (iii + iv)								
	Quick Liabilities:								
	Creditors	06	08	10	03	100	133.33	166.67	50
	Other Liabilites	01	02	02	03	100	200	200	300
	(iii)	07	10	12	06	100	142.86	171.43	85.71
	Non-quick Liabilities:								
	Bank Overdraft (iv)	01	02	08	04	100	200	800	400
	(iii + iv)	08	12	20	10	100	150	250	125
	(A-B)	22	18	22	20	100	81.82	100	90.91
3.	Net Assets Owned (1+ 2)	142	163	160	190	100	114.79	112.68	133.80

Exercise**Answer in One Sentence:**

1. What is fixed assets?
2. What is an intangible assets?
3. What is quick assets?
4. What is a proprietor's fund?
5. What is reserve capital?
6. What is capital reserve ?
7. What is contingent liabilities?
8. What is quick liabilities?
9. What is long term borrowings?

Fills in the Blanks:

1. _____ shows financial position of a firm.
2. alls in advance should be shown in balance sheet on _____ side.

3. Calls in arrears should be _____ from subscribed capital.
4. Debentures carry fixed rate _____
5. Public deposits should be shown under _____
6. Trade mark is an _____ asset.
7. Livestock is _____ asset.
8. Capital employed = net worth plus _____
9. G.P. is sales- _____
10. Current liabilities = _____ - current asset.
11. Fixed asset = _____ assets + intangible assets.
12. Capital employed = fixed asset + _____ capital.
13. Securities premium forms part of _____
14. Comparative statement is a part of _____ analysis
15. Common size statement is a _____ analysis.
16. Common size statement is also called as _____ % statement.
17. In common size _____ capital employed is considered equal to 100.
18. In trend analysis earliest year considered as _____ year.

Ans.: (1) Balance sheet; (2) liability; (3) deducted; (4) interest; (5) unsecured loan; (6) intangible; (7) fixed; (8) loan fund; (9) cost of goods sold; (10) working capital; (11) tangible; (12) working capital; (13) reserve & surplus; (14) horizontal; (15) vertical; (16) 100; (17) balance sheet; (18) base.

State whether the following statements are True or False:

1. Management accounting is a recent development.
2. P & L A/c shows financial position of an organization
3. Subscribed capital is the capital subscribed by the investors.
4. Calls in arrears is calls in advance
5. Calls in advance is shown under current assets.
6. Debentures may be unsecured only.
7. Goodwill should be shown under fictitious assets
8. Patents and copyright are intangible assets.
9. Loose tools should be shown under current assets.
10. Arrears of pref. dividend is a contingent liability.
11. Interest on loan is disclosed separately in the income statement.
12. Profit on sale of machinery is an operating income .
13. Operating expenses are incurred to conduct the operations smoothly.
14. Fictitious assets can be converted into cash.
15. Own fund is external fund.
16. All the quick liabilities are current liabilities.
17. Floating assets are current asset.
18. Comparative statement includes comparative income statement and balance sheet.
19. Comparative balance sheet shows comparative financial status.
20. In common size income statement capital employed is considered equal to 100.

21. Common size statement is a horizontal analysis.
22. Trend analysis show the trend in financial performance of an organization.
23. Analysis is a must for interpretation

Ans.: True: (1, 3, 8, 9, 10, 11, 13, 16, 17, 18, 19, 22, 23)

False: (2, 4, 5, 6, 7, 12, 14, 15, 20, 21)

Match the Columns:

(A) Groups A

- (a) Calls in arrears
- (b) Over subscription
- (c) Securities premium
- (d) Proprietors fund
- (e) Capital employed
- (f) Preliminary expenses
- (g) Goodwill
- (h) Rly sidings
- (i) Calls in advance
- (j) G.P.
- (k) Operating net profit
- (l) Retained earnings
- (m) Loss from speculation

Groups B

- (i) Discussed under reserve & Surplus
- (ii) Share capital + reserve- fictitious assests
- (iii) Own fund+ loan fund
- (iv) Intangible fixed assets
- (v) Fixed assets
- (vi) disclosed on liability side
- (vii) Fictitious assets
- (viii) Subscribed capital is more than issued capital
- (ix) Deducted from subscribed capital
- (x) Trading profit
- (xi) P&L A/c balance
- (xii) Non operating
- (xiii) Operating
- (xiv) G.P.less operating expenses

Ans.: (a-ix), (b- viii), (c-i), (d-ii), (e-iii), (f-vii), (g-iv), (h-v), (i-vi), (j-x), (k-xiv), (l-xi), (m-xii)

(B) Groups A

- (a) Source of funds
- (b) Uses of funds
- (c) Liquid assets
- (d) Quick liabilities
- (e) Shareholder funds

Groups B

- (i) fixed assets + investments + net current assets
- (ii) current assets - stock
- (iii) current liabilities – bank OD
- (iv) net worth
- (v) net worth + loan fund

Ans.: (a-v), (b-i), (c-ii), (d-iii), (e-iv)

(C) Groups A

- (a) An assets which has physical existence
- (b) An asset which has no physical existence
- (c) An expenditure which has no future benefits
- (d) Revenue expenditure pertaining to future
- (e) Capital reserve
- (f) Revenue expenditure payable
- (g) Expenditure which is carried forward
- (h) Fund

Groups B

- (i) Reserve earmarked
- (ii) deferred revenue expenditure
- (iii) unpaid expenditure
- (iv) not available for divided
- (v) prepaid expenses
- (vi) fictitious asset
- (vii) intangible assets
- (viii) tangible assets
- (ix) capital expenditure

Ans.: (a -viii)), (b-vii), (c-vi), (d-v), (e-iv), (f-iii), (g-ii), (h-i)

(D) Groups A

- (a) Calls in arrears
- (b) Forfeited shares
- (c) Capital WIP
- (d) Loose tools
- (e) Loss on sale of machinery
- (f) Oils , wells , mines
- (g) Bank overdraft
- (h) Stock

Groups B

- (i) Added to share capital
- (ii) Fixed asset
- (iii) current asset
- (iv) non operating expenditure
- (v) deducted from share capital
- (vi) wasting assets
- (vii) not a quick asset
- (viii) not a quick liability
- (ix) secured loan

Ans.: (a -v), (b-i), (c-ii), (d-iii), (e-iv), (f-vi), (g-viii), (h-vii)

(E) Groups A

- (a) Vertical analysis
- (b) Horizontal analysis
- (c) Increases / decreases
- (d) % increases/ decreases
- (e) Capital employed =100
- (f) Sales =100
- (g) Trends analysis
- (h) Comparative statement

Groups B

- (i) Comparative statement
- (ii) method of preparation of comparative
- (iii) method of preparation of comparative
- (iv) basis of common balance sheet
- (v) common size statement
- (vi) basis of common size income statement
- (vii) earlier year as base year
- (viii) shows comparative performance

Ans.: (a -v), (b-i), (c-ii), (d-iii), (e-iv), (f-vi), (g-vii), (h-viii)

(F) Groups A

- (a) Land and building
- (b) Equity share capital
- (c) Debentures
- (d) 5% govt. Securities
- (e) Loose tools

Groups B

- (i) Net worth
- (ii) loan fund
- (iii) investments
- (iv) current asset
- (v) fixed asset

Ans.: (a-v), (b-i), (c-ii), (d-iii), (e-iv)

(G) Groups A

- (a) Quick asset
- (b) Own fund
- (c) Working capital
- (d) Application of fund
- (e) Trend analysis
- (f) Horizontal analysis
- (g) Vertical analysis

Groups B

- (i) Share capital +R=S
- (ii) Fixed asset +investment =net current asset
- (iii) current asset - stock
- (iv) current asset – current liability
- (v) comparative statements
- (vi) common size statements
- (vii) internals analysis
- (viii) dynamic analysis

Ans.: (a-iii), (b-i), (c-iv), (d-ii), (e-viii), (f-v), (g-vi)

Multiple Choice Questions:

1. Land and building is a
 - (a) fixed tangible movable asset
 - (b) fixed intangible movable asset
 - (c) intangible asset
 - (d) fixed tangible asset

2. Capital work in progress is disclosed under
 - (a) fixed asset
 - (b) current assets
 - (c) capital
 - (d) Intangible asset
3. Stock is a
 - (a) current asset
 - (b) quick asset
 - (c) fixed asset
 - (d) fictitious asset
4. bank overdraft is not a
 - (a) quick liability
 - (b) current liability
 - (c) urgent liability
 - (d) liability
5. operating profit is
 - (a) gross profit plus income
 - (b) gross profit less operating expenses plus operating income
 - (c) gross profit less non- operating income
 - (d) gross profit plus operating losses
6. Bills payable is a
 - (a) quick liability
 - (b) long term liability
 - (c) fixed liability
 - (d) non- current liability
7. provision for taxation is a charge against
 - (a) profit
 - (b) income
 - (c) retained earning
 - (d) none of the above
8. staff salary is an
 - (a) operating expenditure
 - (b) operating income
 - (c) non operating expenditure
 - (d) capital expenditure
9. fixed assets are ₹ 5,00,000, current assets are ₹ 3,00,000, current liabilities are ₹ 1,00,000. There is no investment capital employed will be.
 - (a) ₹ 8,00,000
 - (b) ₹ 7,00,000
 - (c) ₹ 9,00,000
 - (d) ₹ 6,00,000
10. Natural resources like mines oil wells are
 - (a) wasting assets
 - (b) fictitious assets
 - (c) current assets
 - (d) intangible asset
11. the expenditure which is carried forward is
 - (a) deferred revenue expenditure
 - (b) revenue expenditure
 - (c) capital expenditure
 - (d) expired cost
12. Following is not a liquid asset
 - (a) debtors
 - (b) bills receivable
 - (c) stock
 - (d) cash
13. advances given are shown in the vertical balance sheet under
 - (a) current asset
 - (b) current liabilities
 - (c) fixed liabilities
 - (d) fictitious assets
14. Depreciation on machinery is shown under
 - (a) office expenses
 - (b) selling expenses
 - (c) finance expenses
 - (d) cost of goods sold

Ans.: (1-d), (2-a), (3-a), (4-a), (5-b), (6-a), (7-b), (8-a), (9-b), (10-a), (11-a), (12-c), (13-a), (14-d)

Practical Questions

1. Prepare Comparative Income Statement from the following data:

M/s K 7 Co.

Particulars	2013 (₹)	2014 (₹)
Net Sales	5,00,000	4,00,000
Cost of Goods Sold	3,50,000	3,25,000
Operating Expenses	75,000	60,000

Also comment on the changes.

2. Prepare Comparative Balance Sheet as on 31st March, 2014 and comment on it.

Liabilities	2013 (₹)	2014 (₹)	Assets	2013 (₹)	2014 (₹)
Share Capital	1,40,000	1,60,000	Buildings	1,10,000	1,60,000
P/L A/c	40,000	40,000	Machinery	86,000	1,00,000
Debentures	40,000	60,000	Stock	50,000	10,000
Other Secured Loans	20,000	40,000	Debtors	30,000	20,000
Creditors	20,000	6,000	Cash	4,000	30,000
Bank Overdraft	16,000	8,000			
Outstanding expenses	4,000	6,000			
	2,80,000	3,20,000		2,80,000	3,20,000

3. [Oct. 1996, U.Q.No. 7 - 16 Marks] (Comparative Financial Position Statement)

Balance Sheet of RT Ltd. as on December, 2013 and 2014.

Liabilities	2013 (₹)	2014 (₹)	Assets	2013 (₹)	2014 (₹)
Preference Share Capital	–	40,00,000	Fixed Assets	7,00,000	10,00,000
Equity Share Capital	5,00,000	5,00,000	Investments (at Cost)	1,00,000	1,20,000
Reserves and Surplus	1,35,500	1,71,500	Stock	1,50,000	1,80,000
12% Debentures	2,00,000	–	Debtors	2,36,000	2,44,000
Bank Overdraft	50,000	80,000	Cash	24,000	2,500
Sundry Creditors	1,50,000	1,25,000			
Provision for Taxation	75,000	1,20,000			
Proposed Dividend	1,00,000	1,50,000			
	12,10,000	15,46,500		12,10,000	15,46,500

Prepare a Comparative balance sheet and offer your comments.

(Oct. 1996)

4. [Oct. 1997, U.Q.No. 3 - 16 Marks] (Comparative / Financial Statement)

From the following financial statements of Vaibhav Ltd., prepare Comparative Financial Statements (in Vertical Form)

Balance Sheet as on _____

Liabilities	31-12-13 (₹)	31-12-14 (₹)	Assets	31-12-13 (₹)	31-12-14 (₹)
Equity Share Capital	4,00,000	4,00,000	Land	2,00,000	2,40,000
9% Preference Share Capital	3,00,000	3,00,000	Factory Plant & Building	6,00,000	5,40,000
General Reserves	2,00,000	2,45,000	Stocks	2,00,000	3,00,000
Tax Payable	1,00,000	1,50,000	Debtors	2,00,000	3,00,000
Creditors	2,00,000	2,75,000	Cash	1,00,000	1,40,000
17% Debentures	1,00,000	1,50,000			
	13,00,000	15,20,000		13,00,000	15,20,000

Profit & Loss A/c for the year ended

Particulars	31-12-13 (₹)	31-12-14 (₹)	Particulars	31-12-13 (₹)	31-12-14 (₹)
Cost of Goods Sold	6,00,000	7,50,000	Sales	8,00,000	10,00,000
Administrative Expenses	30,000	40,000			
Selling Expenses	20,000	20,000			
Net Profit	1,50,000	1,90,000			
	8,00,000	10,00,000		8,00,000	10,00,000

Briefly comment on the difference between the stand net profit of 2013 and the increment in General Reserves on 31-12-13 assuming that no amount is paid towards tax in 2013.

Also ascertain the quantum of cash gross profit of 2013, assuming that no depreciation is provided on Land. **(Oct. 1997)**

5. [April 1999] (Comparative Financial Position Statement)

From the following data prepare Comparative Balance Sheets in vertical form at 31-03-2013 and 31-03-2014 of M/s APJ Ltd.

Balance Sheet as at 31st March

Liabilities	2013 (₹)	2014 (₹)	Assets	2013 (₹)	2014 (₹)
Share Capital	70,000	80,000	Building	55,000	80,000
P & L A/c	20,000	20,000	Machinery	43,000	50,000
Debentures	20,000	30,000	Stock	25,000	5,000
Other Secured Loan	10,000	20,000	Debtors	15,000	10,000
Creditors	10,000	3,000	Cash	2,000	15,000
Bank Overdraft	8,000	4,000			
Outstanding Expenses	2,000	3,000			
	1,40,000	1,60,000		1,40,000	1,60,000

6. [April 2002, U.Q.No. 3 - 16 Marks] (Comparative Financial Statements)

Prepare Comparative Income Statement and Comparative Balance Sheet in vertical form and offer your brief comments.

Particulars	31-3-13 (₹)	31-3-14 (₹)	Particulars	31-3-13 (₹)	31-3-14 (₹)
To Opening Stock	44,000	40,000	By Sales	1,19,000	2,00,000
To Purchases	84,000	72,000	By Closing Stock	46,000	44,000
To Wages	40,000	36,000	By Interest Received	20,000	—
To Factory Expenses	32,000	28,000			
To Establishment Expenses	8,000	6,000			
To Management Expenses	2,000	2,000			
To Selling Expenses	6,000	10,000			
To Interest	6,000	8,000			
To Loss on sale of Assets	2,000	2,000			
To Provision for Taxation	22,000	24,000			
To Net Profit	10,000	16,000			
Transferred to Reserve					
	2,56,000	2,44,000		2,56,000	2,44,000

Balance Sheet as at

Liabilities	31-3-13 (₹)	31-3-14 (₹)	Assets	31-3-13 (₹)	31-3-14 (₹)
Equity Capital	50,000	70,000	Fixes Assets	70,000	82,000
Preference Capital	20,000	–	Investments	20,000	10,000
Reserves	50,000	68,000	Current Assets		
Secured Loans	22,000	24,000	Excluding Bank Balance	1,00,000	92,000
Unsecured Loans	30,000	–	Bank Balance	10,000	20,000
Creditors	20,000	25,000	Loans and Advance	40,000	30,000
Outstanding Expenses	6,000	5,000	Preliminary Expenses	12,000	10,000
Provision	54,000	50,000			
Unclaimed Dividend	–	2,000			
	2,52,000	2,44,000		2,52,000	2,44,000

(April 2002)**7. Comparative Financial Position Statement**

From the following balance sheet as on 31st March, 2013, and 31st March, 2014 of M/s. Successful Ltd. prepare Comparative Balance Sheet for analysis purpose in vertical form.

	31st March, 2013 (₹)	31st March, 2014 (₹)
Assets:		
Cash and Bank Balance	6,00,000	2,00,000
Short Term Investments	2,00,000	9,00,000
Accounts Receivable	13,00,000	10,00,000
Inventories	15,00,000	5,00,000
Prepaid Income Tax	2,50,000	2,00,000
Other Current Assets	3,00,000	2,50,000
	41,50,000	30,50,000
Land and Building	4,00,000	2,50,000
Machinery	6,00,000	5,00,000
Furniture	1,50,000	1,00,000
Leasehold Land	2,50,000	2,50,000
	14,00,000	11,00,000
	55,50,000	41,50,000
Liabilities:		
Bills Payable	12,00,000	8,00,000
Account Payable	10,00,000	5,00,000
Accrued Compensation and Employee Benefit	5,00,000	2,00,000
Income Tax Payable	2,00,000	1,00,000
	29,00,000	16,00,000
Equity Capital	20,00,000	20,00,000
Reserve	6,50,000	5,50,000
	26,50,000	25,50,000
	55,50,000	41,50,000

(Oct. 2005)

8. [April 2008, U.Q.No. 3 - 16 Marks] (Comparative Balance Sheet)

Balance Sheet of Star Ltd. for the year ended 31st December, 2013 and 31st December, 2014 are as follows:

Liabilities	31-12-13 (₹)	31-12-14 (₹)	Assets	31-12-13 (₹)	31-12-14 (₹)
Equity Share Capital	8,00,000	8,00,000	Building	6,00,000	5,40,000
10% Pref. Share Capital	6,00,000	6,00,000	Land	2,00,000	2,00,000
General Reserves	4,00,000	4,90,000	Plant	6,00,000	5,40,000
15% Debentures	2,00,000	3,00,000	Furniture	2,00,000	2,80,000
Creditors	3,00,000	4,00,000	Stock	4,00,000	6,00,000
Bills Payable	1,00,000	1,50,000	Debtors	4,00,000	6,00,000
Tax Payable	2,00,000	3,00,000	Cash	2,00,000	2,80,000
	26,00,000	30,40,000		26,00,000	30,40,000

Prepare Comparative Balance Sheet in Vertical form and your comments in brief on Fixed Assets.
(April 2008)

9. [Oct. 2008, U.Q.No. 5 - 16 Marks] (Comparative Statement)

Prepare Comparative Revenue Statement in Vertical Form from the following details:

Profit & Loss A/c for the year ended 31st March

Particulars	2013 (₹)	2014 (₹)	Particulars	2013 (₹)	2014 (₹)
To Opening Stock	2,25,000	3,00,000	By Sales	45,00,000	60,00,000
To Purchases	22,50,000	32,10,000	By Closing Stock	3,00,000	3,60,000
To Interest on Debenture	1,50,000	1,50,000	By Dividend	12,000	39,000
To Depreciation:			By Profit on Sale of Machinery	24,000	—
Furniture	15,000	15,000			
Machinery	36,000	30,000			
To Administrative Expenses	2,94,000	4,41,000			
To Selling Expenses	4,56,000	7,53,000			
To Carriage Outward	75,000	3,15,000			
To Loss by Fire	—	15,000			
To Wages	1,95,000	3,00,000			
To Provision for Tax	5,70,000	4,35,000			
	48,36,000	63,99,000		48,36,000	63,99,000

(Oct. 2008)

10. Convert the following financial statements into the common size financial statements:

Profit and Loss A/c for the year ended 2014.

Particulars	(₹)	(₹)
Sales		12,00,000
Less: Cost of Sales		
Opening Stock	1,80,000	
Add: Purchases	9,00,000	
	10,80,000	
Less: Closing Stock	2,00,000	8,80,000
Gross Profit		3,20,000
Less: Other Operating Expenses:		

(i) Office and Administrative	1,00,000	
(ii) Selling and Distribution	20,000	
(iii) Finance	20,000	1,40,000
Operating Net Profit		1,80,000
Add: Non-operating Income		5,000
		1,85,000
Less: Non-operating Expenditure		10,000
Net Profit Before Tax		1,75,000
Less: Provision for Taxation		75,000
Net Profit After Tax		1,00,000
Less: Dividend		40,000
Balance of Net Profit transferred		60,000

11. [Oct. 1995, U.Q.No. 6 - 16 Marks] (Common Size - Financial Statement)

Prepare Common Size Financial Statement

Balance Sheet

Liabilities	Year 1 (₹)	Year 2 (₹)	Assets	Year 1 (₹)	Year 2 (₹)
Creditors	33,800	36,400	Land	49,400	49,400
Loans	54,000	37,000	Building	2,73,000	2,47,000
Share Capital	5,20,000	5,20,000	Machinery	1,58,600	1,45,600
Reserves	1,48,200	1,77,650	Inventory	2,10,600	2,34,000
Proposed Dividend	9,000	7,000	Prepaid Expenses	28,600	26,600
Tax Provisions	59,400	36,450	Cash	18,200	33,800
			Debtors	86,000	78,700
	8,24,400	8,14,500		8,24,400	8,14,500

Dr.

Income Statement

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Expenses	Year 1 (₹)	Year 2 (₹)	Income	Year 1 (₹)	Year 2 (₹)
To Cost of Sale	5,46,750	4,91,400	By Gross Sales	9,91,440	8,26,200
To Opening Expenses:			Less: Returns	18,900	16,200
Administrative	91,800	81,000	Net Slaes	9,72,540	8,10,000
Sales	1,78,200	1,62,200	By Non-operating Income	10,930	8,100
To Non-operating Expenses	16,320	10,800			
To Tax Provision	59,400	36,450			
To Proposed Dividend	9,000	7,000			
To Retained Earnings	82,000	29,450			
	9,83,470	8,18,100		9,83,470	8,18,100

(Oct. 1995)

12. [April 1996, U.Q.No. 4 - 16 Marks] (Common Size - Financial Statements)

From the following Financial Statements of Moon Ltd. for the year ended 31st December, 1994 and 1995, Prepare: (a) Common - size Income Statements. (b) Common - size Balance Sheets. (c) Comment on the above.

Balance Sheet as at 31st December

Liabilities	2013 (₹)	2014 (₹)	Assets	2013 (₹)	2014 (₹)
Equity Share Capital	4,00,000	4,00,000	Land	1,00,000	1,00,000
9% Preference Share Capital	3,00,000	3,00,000	Building	3,00,000	2,70,000
General Reserves	2,00,000	2,45,000	Plant	3,00,000	2,70,000
17% Debentures	1,00,000	1,50,000	Furniture	1,00,000	1,40,000
Creditors	1,50,000	2,00,000	Stock	2,00,000	3,00,000
Bills Payable	50,000	75,000	Debtors	2,00,000	3,00,000
Tax Payable	1,00,000	1,50,000	Cash	1,00,000	1,40,000
	13,00,000	15,20,000		13,00,000	15,20,000

Profit and Loss Account for the year ended 31st December

Particulars	2013 (₹)	2014 (₹)	Particulars	2013 (₹)	2014 (₹)
To Cost of Goods Sold	6,00,000	7,50,000	By Net Sales	8,00,000	10,00,000
To Operating Expenses:					
Administrative Expenses	30,000	40,000			
Selling Expenses	20,000	20,000			
To Net Profit	1,50,000	1,90,000			
	8,00,000	10,00,000		8,00,000	10,00,000

(April 1996)

13. [April 1998, U.Q.No. 2 - 16 Marks] (Common Size - Financial Statement)

The summarised Balance Sheet of two companies are as follows:

Balance Sheet as at 31st March, 2014.

Liabilities	Top Ltd. (₹)	Ten Ltd (₹)	Assets	Top Ltd. (₹)	Ten Ltd (₹)
Equity Share Capital	1,20,000	3,50,000	Fixed Assets	2,45,000	4,10,000
10% Preference Share Capital	1,00,000	50,000	Current Assets	2,90,500	3,32,800
Reserves	1,40,000	56,000	Preliminary Expenses	10,000	6,000
15% Debentures	50,000	50,000			
Current Liabilities	1,35,500	2,42,800			
	5,45,500	7,48,800		5,45,500	7,48,800

Revenue Statements for the year 31st March, 2014.

Particulars	(₹)	(₹)
Sales	10,00,000	12,00,000
Less: Cost of Sales	6,00,000	8,00,000
	4,00,000	4,00,000
Less: Operating Expenses (including interest)	1,40,000	2,05,000
Less: Non-cash Operating Expenses (Depreciation)	10,000	20,000
	2,50,000	1,75,000
Less: Taxes	1,00,000	70,000
Less: Dividend	70,000	75,000
Retained Earning	80,000	30,000

Prepare:

(i) Common size Balance Sheet (in Vertical Form)

- (ii) Common Size Income Statements (in Vertical Form)
- (iii) Comments in brief.
- (iv) Working Capital fund generated before Tax from operations of both the companies.

(April 1998)

14. [Oct. 1999, U.Q.No. 4(a) - 8 Marks] (Common Size Financial Position Statement)

Prepare a common size balance sheet of M/s. Ram Ltd. in vertical form the following information and comment on it.

Particulars	(₹)
Land & Building	6,00,000
Plant & Machinery	5,00,000
Equity Capital	5,00,000
Preference Capital	2,00,000
Stock	2,40,000
Debtors	2,00,000
Cash & Bank	55,000
Miscellaneous Current Assets	5,000
Profit & Loss A/c (Cr. Bal.)	2,00,000
General Reserve	1,00,000
Sundry Creditors	80,000
Bills Payables	60,000
Miscellaneous Current Liabilities	60,000
Debentures	4,00,000

(Oct. 1999)

15. [Oct. 1997, U.Q.No. 5 - 8 Marks] (Trend Analysis - Income Statement)

You are furnished with the following revenue statements for the year ended 31-3-2014.

Liabilities	2011	2012	2013	2014
Sales	50,00,000	60,00,000	72,00,000	86,40,000
Less: Cost of Sales	32,00,000	38,00,000	46,00,000	56,00,000
Margin	18,00,000	22,00,000	26,00,000	30,40,000
Management Expenses	3,00,000	3,50,000	4,00,000	4,50,000
Sales Expenses	5,00,000	6,00,000	7,20,000	8,64,000
Interest on Borrowing	3,00,000	4,00,000	5,00,000	6,00,000
Total Expenses	11,00,000	13,50,000	16,20,000	19,14,000
Net Profit before depreciation and taxation	7,00,000	8,50,000	9,80,000	11,26,000
Depreciation	5,00,000	4,50,000	6,00,000	6,50,000
Profit before Taxation	2,00,000	4,00,000	3,80,000	4,76,000
Income Tax	80,000	2,00,000	1,85,000	2,40,000
Profit after Tax	1,20,000	2,00,000	1,95,000	2,36,000

- (a) You are asked to prepare trend analysis.
- (b) Comments on the same

(Oct. 1997)

16. [Oct. 1999, U.Q.No. 5(a) & (b) - 16 Marks] (Trend Analysis Financial Statement)

(a) Calculate Trend Percentage from the following information extracted from the financial statements of different entities. Give your appropriate comments on each statement:

Particulars	2011 (₹)	2012 (₹)	2013 (₹)	2014 (₹)
Assets:				
Fixed Assets	2,11,696	2,08,694	2,04,580	1,84,122
Investments	20,000	15,000	10,000	9,000
Cash in Hand	41,680	30,472	20,346	18,312
Sundry Debtors	1,85,040	1,31,346	85,750	77,175
Stock	1,31,474	1,34,684	1,45,172	1,30,655
Prepaid Expenses	1,690	3,236	2,440	2,196
	5,91,580	5,23,432	4,68,288	4,21,460
Liabilities:				
Sundry Creditors	1,40,712	1,32,684	1,17,410	1,05,669
Liabilities for Expenses	5,640	4,094	2,490	2,240
Share Capital	4,45,228	3,86,654	3,48,388	3,13,551
	5,91,580	5,23,432	4,68,288	4,21,460

(b)

Particulars	2011 (₹)	2012 (₹)	2013 (₹)	2014 (₹)
Sales	9,880	13,640	16,400	18,040
Cost of Sales	8,810	12,490	14,970	16,460
Expenses	50	130	80	100
Interest Expenses	200	370	500	540
Tax	450	190	390	450
Profit	?	?	?	?

17. [April 2003, U.Q.No. 6 - 16 Marks] (Trend Analysis - Income Statement)

You are furnished with the following revenue statements for the year ended 31st December.

Particulars	2011 (₹)	2012 (₹)	2013 (₹)	2014 (₹)
Sales	50,000	60,000	72,000	86,400
Less: Cost of Sales	32,000	38,000	46,000	56,000
Margin	18,000	22,000	26,000	30,400
Management Expenses	3,000	3,500	4,000	4,500
Sales Expenses	5,000	6,000	7,200	8,640
Interest on Loans	3,000	4,000	5,000	6,000
Total Expenses	11,000	13,500	16,200	19,140
Profit before Depreciation	7,000	8,500	9,800	11,260
Depreciation	5,000	4,500	6,000	6,500
Profit before Tax	2,000	4,000	3,800	4,760
Income Tax	800	2,000	1,850	2,400
Profit after Tax	1,200	2,000	1,950	2,360

You are required to make trend analysis (absolute figures need not be shown) and comment in brief on change in Gross Profit, Net Profit before Tax. (April 2003)

18. [Oct. 2005, U.Q.No. 8 - 16 Marks] (Trend Analysis - Income Statement)

From the following prepare income statement in vertical form showing trend percentages of M/s Supreme Ltd. and Comment on gross profit trend.

Particulars	2011	2012	2013	2014
Sales	4,20,000	5,10,000	5,40,000	6,00,000
Cost of Sales	1,92,500	2,33,750	2,47,500	2,75,000
Administrative Expenses	67,500	67,500	75,000	75,000
Selling & Distribution Expenses	42,000	51,000	54,000	60,000
Finance expenses	20,000	20,000	20,000	20,000
Income Tax Provision	29,400	41,325	43,050	51,000

(Oct. 2005)

19. [Oct. 2006, U.Q.No. 4 - 16 Marks] (Trend Analysis - Financial Position Statement)

From the following Balance Sheet, prepare vertical Balance Sheet which is suitable for analysis and calculated Trend percentages taking 2003 as base year.

Balance Sheet as at 31st December

Particulars	2014 (₹)	2013 (₹)	2012 (₹)
Share Capital	50,000	50,000	50,000
Reserve and Surplus	5,000	10,000	10,000
Secured Loan	3,000	5,000	5,000
Unsecured Loan	2,000		6,000
Current Liabilities	5,000	5,000	4,000
	65,000	70,000	75,000
Fixed Assets (Net)	40,000	45,000	50,000
Investment	5,000	7,500	10,000
Stock	7,000	6,000	5,000
Debtors	10,000	9,000	7,000
Cash	3,000	2,500	3,000
	65,000	70,000	75,000

(Oct. 2006)

20. Prepare Vertical Balance Sheet:

Particulars	2013 (₹)	2013 (₹)
Net Worth	?	65,000
Long Term Debts	10,000	?
Fixed Assets	40,000	50,000
Net Current Assets	20,000	25,000

(Ans: Net Worth ₹ 50,000; LTL ₹ 10,000)

21. Prepare Vertical Profit & Loss A/c.

Particulars	2013 (₹)	2014 (₹)
Net Sales	50,000	?
Cost of Sales	50% on Sales	60% on Sales
Gross Profit	?	30,000
Other Income	?	20% on Sales
Net Profit	30,000	?

(Ans: 2013 = G.P. ₹ 25,000; Other income ₹ 5,000)

2014 = Net Sales = ₹ 75,000; Other income ₹ 15,000; N/P ₹ 45,000)

22. From of the following data, prepare comparative statement:

Particulars	Year 1	Year 2
Sales	5,00,000	6,00,000
Gross Profit	40%	50%
Operating Expenses	1,00,000	1,50,000
Income Tax Rate	50%	50%

(Ans: N/P Year 1 = ₹ 50,000; Year 2 = ₹ 75,000)

23. Prepare comparative Income Statement:

Particulars	2012	2013
Sales	₹ 4,00,000	₹ 6,00,000
Cost of Sales	60% of Sales	70% of Sales
Indirect Expenses	50% of G.P.	40% of G.P.
Income Tax	50% of Net Profit before tax	50% of N/P

Ans:

Particulars	2012	2013
Cost of Sales	2,40,000	4,20,000
Indirect Expenses	80,000	72,000
N.P. after Tax	40,000	72,000

24. Prepare Common Size Balance Sheet as on 31st March, 2013.

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Share Capital	18,00,000	24,00,000	Fixed Assets	20,00,000	32,00,000
Reserve & Surplus	8,00,000	7,00,000	Current Assets	10,00,000	4,00,000
Current Liabilities	4,00,000	5,00,000			
	30,00,000	36,00,000		30,00,000	36,00,000

(Ans: Total Fund Employed

X Ltd. = ₹ 26,00,000; Y Ltd. = ₹ 31,00,000)

25. From of the following data prepare Common Size Income Statement:

Particulars	Year 1 (₹)	Year 2 (₹)
Sales	20,00,000	24,00,000
Cost of Goods Sold	15,00,000	18,00,000
Operating Expenses	2,00,000	3,00,000
Interest on Loan	50,000	1,00,000
Income Tax	80,000	1,00,000

(Ans: N/P - Year 1 = ₹ 1,70,000; Year 2 = ₹ 1,00,000)

