CHAPTER 6
Financial Statements: Analysis and Interpretation

Meaning of Financial Statements

Every business concern wants to know the various financial aspects for effective decision making. The preparation of financial statement is required in order to achieve the objectives of the firm as a whole. The term financial statement refers to an organized collection of data on the basis of accounting principles and conventions to disclose its financial information. Financial statements are broadly grouped in to two statements:

I. Income Statements (Trading, Profit and Loss Account)

II. Balance Sheets

In addition to above financial statements supported by the following statements are prepared to meet the needs of the business concern:

(a) Statement of Retained Earnings

(b) Statement of Changes in Financial Position

The meaning and importance of the financial statements are as follows :

(1) Income Statements: The term 'Income Statements' is also known as Trading, Profit and Loss Account. This is the first stage of preparation of final accounts in accounting cycle. The purpose of preparing Trading, Profit and Loss Accounts to ascertain the Net Profit or Net Loss of a business concern during the accounting period.

(2) Balance Sheet: Balance Sheet may be defined as "a statement of financial position of any economic unit disclosing as at a given moment of time its assets, at cost, depreciated cost, or other indicated value, its liabilities and its ownership equities." In other words, it is a statement which indicates the financial position or soundness of a business concern at a specific period of time. Balance Sheet may also be described as a statement of source and application of funds because it represents the source where the funds for the business were obtained and how the funds were utilized in the business.

(3) Statement of Retained Earnings: This statement is considered to be as the connecting link between the Profit and Loss Account and Balance Sheet. The accumulated excess of earning over losses and dividend is treated as Retained Earnings. The balance of retained earnings shown on the Profit and Loss Accounts and it is transferred to liability side of the balance sheet.

(4) Statement of Changes in Financial Position: Income Statements and Balance sheet do not disclose the operational efficiency of the concern. In order to measure the operational efficiency of the concern it is essential to identify the movement of working capital or cash inflow or cash outflow of the business concern during the particular period. To highlight the changes of financial position of a particular firm, the statement is prepared may emphasize of the following aspects :

(c) Fund Flow Statement is prepared to know the changes in the firm's working capital.

(d) Cash Flow Statement is prepared to understand the changes in the firm's cash position.

(e) Statement of Changes in Financial Position is used for the changes in the firm's total financial position.

Nature of Financial Statements

Financial Statements are prepared on the basis of business transactions recorded in the books of Original Entry or Subsidiary Books, Ledger, and Trial Balance. Recording the transactions in the books of primary entry supported by document proofs such as Vouchers, Invoice Note etc.

According to the American Institute of Certified Public Accountants, "Financial Statement reflects a combination of recorded facts, accounting conventions and personal judgments and conventions applied which affect them materially." It is therefore, nature and accuracy of the data included in the financial statements which are influenced by the following factors :

(1) Recorded Facts.

(2) Generally Accepted Accounting Principles.

(3) Personal Judgments.

(4) Accounting Conventions.

Objectives of Financial Statements

The following are the important objectives of financial statements :

(1) To provide adequate information about the source of finance and obligations of the finance firm.

(2) To provide reliable information about the financial performance and financial soundness of the concern.

(3) To provide sufficient information about results of operations of business over a period of time.

(4) To provide useful information about the financial conditions of the business and movement of resources in and out of business.

(5) To provide necessary information to enable the users to evaluate the earning performance of resources or managerial performance in forecasting the earning potentials of business.

Limitations of Financial Statements

(1) Financial Statements are normally prepared on the basis of accounting principles, conventions and past experiences. Therefore, they do not communicate much about the profitability, solvency, stability, liquidity etc. of the undertakers to the users of the statements.

(2) Financial Statements emphasise to disclose only monetary facts, i.e., quantitative information and ignore qualitative information.

(3) Financial Statements disclose only the historical information. It does not consider changes in money value, fluctuations of price level etc. Thus, correct forecasting for future is not possible.

(4) Influences of personal judgments leads to opportunities for manipulation while preparing of financial statements.

(5) Information disclosed by financial statements based on accounting concepts and conventions. It is unrealistic due to difference in terms and conditions and changes in economic situations.

Analysis and Interpretations of Financial Statements

Presentation of financial statements is the important part of accounting process. To provide more meaningful information to enable the owners, investors, creditors or users of financial statements to evaluate the operational efficiency of the concern during the particular period. More useful information are required from the financial statements to make the purposeful decisions about the profitability and financial soundness of the concern. In order to fulfil the needs of the above, it is essential to consider analysis and interpretation of financial statements.

Meaning of Analysis and Interpretations

The term "Analysis" refers to rearrangement of the data given in the financial statements. In other words, simplification of data by methodical classification of the data given in the financial statements.

The term "interpretation" refers to "explaining the meaning and significance of the data so simplified."

Both analysis and interpretations are closely connected and inter related. They are complementary to each other. Therefore presentation of information becomes more purposeful and meaningful—both analysis and interpretations are to be considered.

Metcalf and Tigard have defined financial statement analysis and interpretations as a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a firm's position and performance.

The facts and figures in the financial statements can be transformed into meaningful and useful figures through a process called "Analysis and Interpretations."

In other words, financial statement analysis and interpretation refer to the process of establishing the meaningful relationship between the items of the two financial statements with the objective of identifying the financial and operational strengths and weaknesses.

Types of Analysis and Interpretations

The analysis and interpretation of financial statements can be classified into different categories depending upon :

I. The Materials Used

II. Modus Operandi (Methods of Operations to be followed)

I. On the basis of Materials Used:

(a) External Analysis.

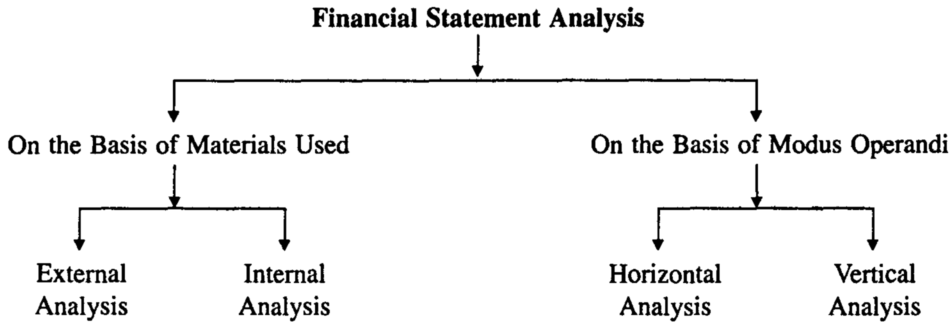
(b) Internal Analysis.

II. On the basis of Modus Operandi

(a) Vertical Analysis.

(b) Horizontal Analysis.

The following chart shows the classification of financial analysis:



I. On the Basis of Materials Used

On the basis of materials used the analysis and interpretations of financial statements may be classified into (a) External Analysis and (b) Internal Analysis.

(a) External Analysis: This analysis meant for the outsiders of the business firm. Outsiders may be investors, creditors, suppliers, government agencies, shareholders etc. These external people have to rely only on these published financial statements for important decision making. This analysis serves only a limited purpose due to non-availability of detailed information.

(b) Internal Analysis: Internal analysis performed by the persons who are internal to the organization. These internal people who have access to the books of accounts and other informations related to the business. Such analysis can be done for the purpose of assisting managerial personnel to take corrective action and appropriate decisions.

II. On the basis of Modus Operandi

On the basis of Modus operandi, the analysis and interpretation of financial statements may be classified into: (a) Horizontal Analysis and (b) Vertical Analysis.

(a) Horizontal Analysis: Horizontal analysis is also termed as Dynamic Analysis. Under this type of analysis, comparison of the trend of each item in the financial statements over the number of years are reviewed or analyzed. This type of comparison helps to identify the trend in various indicators of performance. In this type of analysis, current year figures are compared with base year for figures are presented horizontally over a number of columns.

(b) Vertical Analysis: Vertical Analysis is also termed as Static Analysis. Under this type of analysis, a number of ratios used for measuring the meaningful quantitative relationship between the items of financial statements during the particular period. This type of analysis is useful in comparing the performance, efficiency and profitability of several companies in the same group or divisions in the same company.

Rearrangement of Income Statements

Financial statements should be rearranged for proper analysis and interpretations of these statements. It enables to measure the performance of operational efficiency and profitability of a concern during particular period. The items of operating revenues, non-operating revenues, operating expenses and non-operating expenses are rearranged into different heads and sub-heads are given below :

Income Statement (Operating Statement)
for the year endings . . . . . .

Particulars	*Amount Rs.*	*Amount Rs.*
Opening stock of Raw Materials		. . .
Add : Purchases	. . .	
Less : Purchases Returns	. . .	. . .
Freight and Carriage		. . .
Less : Closing Stock of Raw Materials		. . .
		. . .
Raw Materials Consumed (1)		. . .
Add : Direct wages (Factory)	. . .	
Factory Rent and Rates	. . .	
Power and Coal	. . .	
Depreciation of Plant and Machinery	. . .	
Depreciation of Factory Building	. . .	
Work Manager's Salary	. . .	
Other Factory Expenses	. . .	. . .
	. . .	
Add : Opening Stock of working progress	. . .	
Opening Stock of Finished goods	. . .	
	. . .	
Less : Closing Stock of work in progress	. . .	
Closing Stock of Finished goods	. . .	. . .
Cost of Goods Sold (2)		. . .
Less : Net Sales (Less sales return and Sales tax) (3)		. . .
Gross Profit : (4) = (3 – 2)		. . .
(Net Sales – Cost of Goods Sold)		
Less : **Operating Expenses : (5)**		
Office Expenses	. . .	
Administrative Expenses	. . .	
Selling Expenses	. . .	
Distribution Expenses	. . .	. . .
Net Operating Profit : (6) = (4 – 5)		. . .
Add : **Non-Operating Income : (7)**	. . .	
Interest Received	. . .	
Discount Received	. . .	
Dividend Received	. . .	
Income Form Investment	. . .	
Interest on Debenture	. . .	
Any other Non-Trading Income	. . .	. . .
		. . .

Particulars	Amount Rs.	Amount Rs.
Less : **Non-Operating Expenses : (8)**		
Discount on Issue of Shares Written off	. . .	
Interest on Payment on Loan and Overdraft	. . .	
Loss on Sale of Fixed Assets	. . .	. . .
		. . .
Net Profit Before Interest and Tax (9)		. . .
Less : Interest on Debenture **(10)**		. . .
Net Profit Before Tax (11) = (9 – 10) (Net Profit Before Interest and Tax–Interest on Debenture)		. . .
Less : **Tax Paid (12)**		. . .
Net Profit After Interest and Tax **(13)** or Net Loss After Interest and Tax (Transferred to Capital Account)		. . .

Income Statement Equations

From the above rearrangement of operating statements, the following accounting equations may be given :

(1) Net Sales = Cost of Sales + Operating Expenses + Non-Operating Expenses

(2) Gross Profit = Net Sales – Cost of Goods Sold

(3) Operating Expenses = Office and Administrative Expenses + Selling and Distribution Expenses

(or)

(4) Operating Expenses = Gross Profit – Net Operating Profit

(5) Sales – Net Operating Profit = Cost of Sales + Operating Expenses

(6) Net Operating Profit = Gross Profit – Operating Expenses

(7) Net Profit Before Interest and Tax = Net Operating Profit – Non-Operating Expenses

(8) Sales = Cost of Sales + Operating Expenses + Non-Operating Expenses

(9) Net Profit = Net Sales – (Cost of Sales + Operating Expenses + Non-Operating Expenses)

Rearrangement of Balance Sheet

Balance sheet is a statement consisting of assets and liabilities which reflected the financial soundness of a concern at a given date. In order to judge the financial position of a concern, it is also necessary to rearrange the balance sheet in a proper set of form. For analysis and interpretation, the figures in Balance Sheet rearranged in a Vertical Form and given below.

Balance Sheet as on 31^{st} Dec. ....

Particulars	*Amount Rs.*	*Amount Rs.*
Cash in Hand	...	
Cash at Bank	...	
Bills Receivable	...	
Sundry Debtors	...	
Marketable Securities	...	
Other Short-Term Investments	...	...
Liquid Assets (1)	...	
Add : Stock in Trade	...	
(Closing Stock of Raw Materials		
Closing Stock of Work in Progress		
Closing Stock of Finished goods)		
Prepaid Expenses	...	...
Current Assets (2)		...
Less : Current Liabilities :		
Bills Payable	...	
Sundry Creditors	...	
Bank Loans (Short-term)	...	
Bank Overdraft	...	
Outstanding Expenses	...	
Accrued Expenses	...	
Trade Liabilities	...	
Other Liabilities Payable within year	...	...
Total Current Liabilities : (3)		...
Add : **Provisions : (4)**		
Provision for Tax	...	
Proposed Dividend	...	
Provision for Contingent Liabilities	...	
Total Current Liabilities and Provisions (5) = (3 + 4)	...	...
Net Working Capital (6) = (2 – 5)		...
(Current Assets – Total Current Liabilities & Provision)		
Add : **Fixed Assets : (6)**		
Goodwill	...	
Land and Buildings	...	
Plant and Machinery	...	
Loose Tools	...	
Furniture and Fixtures	...	
Patents and Copyrights	...	
Live Stock	...	
Investment in Subsidies	...	...
Capital Employed (7) = (5 + 6)		...
(Net Working Capital + Fixed Assets)		
Add : **Other Assets : (8)**		
Investment in Govt. Securities	...	
Unquoted Investments	...	
Other Non-Trading Investments	...	
Advances to Directors	...	...
Company's Net Assets (9) = (7 + 8)		...
(Capital Employed + Other Assets)		

Particulars	*Amount Rs.*	*Amount Rs.*
Less : **Long-Term Liabilities (10)**		
Debenture	...	
Long-Term Debt	...	
Long-Term Loan from Bank & Financial Institutions	...	
Long-Term Debt Raised by Issue of Securities & Public Deposits	...	
Other Long-Term Loan payable after a year	...	...
Share Holders Net Worth (11) = (9 – 10) (or) Total Tangible Net Assets – Shareholders Net Worth		...
Less : **Preference Share Capital (12)**		...
Equity Shareholders Net Worth (13) = (11 – 12) (Total Tangible Net Worth – Preference Share Capital)		...

Balance Sheet Equations :

From the above Balance Sheet the following accounting equations may be drawn:

(1) Liquid Assets = Current Assets – Stock and Prepaid Expenses

(2) Net Working Capital = Current Assets – Current Liabilities

(3) Current Assets = Net Working Capital – Current Liabilities

(4) Capital Employed = Net Working Capital + Fixed Assets

(or)

Capital Employed = (Current Assets – Current Liabilities) + Fixed Assets

(or)

Capital Employed = Total Assets – Current Liabilities

(5) Shareholders' Net Worth = Company's Net Assets – Shareholders' Net Worth

(6) Equity Shareholders' Net Worth = Total Tangible Net Worth – Preference Share Capital

Methods or Tools of Analysis and Interpretations

The following are the various techniques can be adopted for the analysis and interpretations of financial statements.

(1) Comparative Financial Statements.

(2) Common Size Statements.

(3) Trend Analysis.

(4) Ratio Analysis.

(5) Fund Flow Analysis.

(6) Cash Flow Analysis.

(1) Comparative Financial Statements

Under this form of comparative financial statements both the comparative Profit and Loss Account and comparative Balance sheet are covered. Such comparative statements are prepared not only to the comparison of the various figures of two or more periods but also the relationship between various elements embodied in profit and loss account and balance sheet. It enables to measure operational efficiency and financial soundness of the concern for analysis and interpretations. The following information may be shown in the comparative statements:

(a) Figures are presented in the comparative statements side by side for two or more years.

(b) Absolute data in money value.

(c) Increase or Decrease between the absolute figures in money value.

(d) Changes or trend in various figures in terms of percentage.

Illustration: 1

From the following Profit and Loss Account AVS Ltd., for the years 2002 and 2003, you are required to prepare a Comparative Income Statement.

Statements of Profit and Loss Account

Particulars	*2002* *Rs.*	*2003* *Rs.*
Net sales	4,000	5,000
Less : Cost of goods sold	3,000	3,750
Gross Profit	1,000	1,250
Less : Operating Expenses		
Office and Administrative Expenses	200	250
Selling and Distribution Expenses	225	300
Total Operating Expenses	425	550
Net Profit	575	700

Solution: **AVS Ltd.**

Statements of Profit and Loss Account

Particulars	*2002*	*2003*	*Increase or Decrease in 2003*	
	Rs.	*Rs.*	*Absolute in 2003 Rs.*	*Percentage (%)*
Net sales	4,000	5,000	+ 1,000	+ 25
Less : Cost of Goods Sold	5,000	3,750	+ 1,500	+ 25
Gross Profit	1,000	1,250	+ 250	+ 25
Less : Operating Expenses :				
Office and Administrative Expenses	200	250	+ 50	+ 25
Selling and Distribution Expenses	225	300	+ 75	+ 33.33
Total Operating Expenses	425	550	+ 125	+ 29.41
Net Profit (Gross Profit–Total Operating Expenses)	575	700	+ 125	+ 21.73

Interpretation

From the above statement, it is observed that the sales has increased to the extent of 25%. The cost of goods sold and its percentage increased by 25%. Administrative and selling & distribution expenses have been increased by 25% and 33.33% respectively. The rate of net profit is also increased to the extent of 21.73%. This indicates that the overall profitability of the concern is good.

Illustration: 2

From the following Profit and Loss Account, you are required to convert into Comparative Profit and Loss Account for the year 2002 and 2003:

Dr. Profit and Loss Account for the Year 2002 and 2003 Cr.

Particulars	*2002 Rs.*	*2003 Rs.*	*Particulars*	*2002 Rs.*	*2003 Rs.*
To Cost of goods sold	1,18,000	1,47,000	By Net Sales	2,00,000	2,25,000
To Gross Profit c/d	82,000	78,000			
	2,00,000	2,25,000		2,00,000	2,25,000
To General & Administrative Expenses	5,000	6,000	By Gross Profit b/d	82,000	78,000
To Selling & Distribution Expenses	7,000	8,000	By Non-Operating Income	10,000	15,000
To Non-Operating Expenses	5,000	7,000			
To Net Profit c/d	75,000	72,000			
	92,000	93,000		92,000	93,000

Solution :

Comparative Income Statement for the year ending 2002 and 2003

Particulars	*2002 Rs.*	*2003 Rs.*	*Increase or Decrease in 2003*	
			Absolute in 2003 Rs.	*Percentage (%)*
Net sales	2,00,000	2,25,000	+ 25,000	+ 12.5
Less : Cost of Goods Sold	1,18,000	1,47,000	+ 29,000	+ 24.57
Gross Profit	82,000	78,000	– 4,000	– 4.87
Less : Operating Expenses :				
General & Administrative Expenses	5,000	6,000	+ 1,000	+ 20
Selling & Distribution Expenses	7,000	8,000	+ 1,000	+ 14.28
Total Operating Expenses	12,000	14,000	+ 2,000	+ 16.66
Net Profit	70,000	64,000	– 6,000	– 8.57
Add : Non-Operating Income	10,000	15,000	+ 5,000	+ 50
Total Income	80,000	79,000	– 1,000	– 1.25
Less : Non-Operating Expenses	5,000	7,000	+ 2,000	+ 40
Net Profit	75,000	72,000	– 3,000	– 4

Interpretation

The rate of increase in sales is to extent of (12.5%) while cost of sales increased by (33.5%). The gross profit has declined by (– 4.87%). It indicates that performance of operational efficiency is not much better and the cost of sales has not been under control.

The Operating Profit and Net Profit have declined by (– 8.57%) and (– 4%) respectively. The increase in operating and non operating expenses are to extent of + 16.66 % and + 40%. This indicates that the overall profitability of a concern is not good.

Illustration: 3

From the following Balance sheet of ABC Ltd., for the year ending 31st Dec. 2002 and 2003, you are required to prepare a Comparative Balance Sheet :

Particulars	*2002 Rs.*	*2003 Rs.*
Assets :		
Cash in Hand	5,000	5,500
Cash at Bank	3,500	5,000
Sundry Debtors	45,000	40,000
Stock	35,000	40,000
Bills Receivable	11,000	11,500
Prepaid Expenses	2,500	3,000
Fixed Assets	1,50,000	1,65,000
	2,52,000	2,70,000
Liabilities & Capital :		
Share Capital	1,35,000	1,45,000
Short-Term Loan	32,000	35,000
Long-Term Debt	45,000	42,000
Bills Payable	7,000	5,000
Sundry Creditors	6,000	8,000
Bank Overdraft	27,000	35,000
	2,52,000	2,70,000

Solution:

Comparative Balance Sheet

Particulars	*2002 Rs.*	*2003 Rs.*	*Increase or Decrease in 2003 Rs.*	*Percentage of Increase or Decrease in 2003*
Assets :				
Liquid Assets :				
Cash in Hand	5,000	5,500	+ 500	+ 10 %
Cash at Bank	3,500	5,000	+ 1500	+ 42.85 %
Sundry Debtors	45,000	40,000	– 5000	– 11.11 %
Bills Receivable	11,000	11,500	+ 500	+ 4.54 %
Total Liquid Assets	64,500	62,000	– 2500	– 3.87 %
Add : Stock	35,000	40,000	+ 5000	+ 14.28 %
Prepaid Expenses	2,500	3,000	+ 500	+ 20 %
Total Current Assets	1,02,000	1,05,000	+ 3000	+ 2.94 %
Fixed Assets	1,50,000	1,65,000	+ 15000	+ 10 %

Particulars	2002 Rs.	2003 Rs.	Increase or Decrease in 2003 Rs.	Percentage of Increase or Decrease in 2003
Total Assets	2,52,000	2,70,000	+ 18000	+ 7.14 %
Liabilities and Capital				
Current Liabilities :				
Short-Term Loan	32,000	35,000	+ 3000	+ 9.37 %
Bills Payable	7,000	5,000	– 2000	– 28.57 %
Sundry Creditors	6,000	8,000	+ 2000	+ 33.33 %
Bank Overdraft	27,000	35,000	+ 8000	+ 29.62 %
Total Current Liabilities	72,000	83,000	+ 11000	+ 15.27 %
Long Term Liabilities :				
Long-Term Debts	45,000	42,000	– 3000	– 6.66 %
Total Liabilities	1,17,000	1,25,000	+ 8000	+ 6.83 %
Share Capital	1,35,000	1,45,000	+ 10000	+ 7.40 %
Total Liabilities & Capital	2,52,000	2,70,000	+ 18000	+ 7.14 %

Illustration: 4

The Following is the Balance Sheet ABC Ltd. for the year 2002 amd 2003. Prepare Comparative Balance sheet:

Balance Sheet of ABC Ltd. for the year 2002 and 2003

Liabilities	2002 Rs.	2003 Rs.	Assets	2002 Rs.	2003 Rs.
Current Liabilities	37,000	50,000	Cash in Hand	3,000	5,000
Debenture	50,000	60,000	Cash at Bank	10,000	20,000
Long-Term Debts	2,00,000	2,50,000	Bills Receivable	7,000	10,000
Capital :			Sundry Debtors	10,000	15,000
Preference Share Capital	1,00,000	1,50,000	Stock	20,000	25,000
			Fixed Assets	4,90,000	6,25,000
Equity Capital	1,25,000	1,60,000			
General Reserve	28,000	30,000			
	5,40,000	7,00,000		5,40,000	7,00,000

Solution: **ABC Ltd.**

Comparative Balance Sheet as on 31st Dec. 2002 & 2003

Particulars	2002 Rs.	2003 Rs.	Increase or Decrease in 2003 Rs.	Percentage of Increase or Decrease in 2003 (%)
Assets :				
Cash in Hand	3,000	5,000	+ 2000	+ 66.66
Cash at Bank	10,000	20,000	+ 10000	+ 100
Bills Receivable	7,000	10,000	+ 3000	+ 42.85
Sundry Debtors	10,000	15,000	+ 5000	+ 50
Total Liquid Assets	30,000	50,000	+ 20000	+ 66.66
Add : Stock	20,000	25,000	+ 5000	+ 25
Total Current Assets	50,000	75,000	+ 25000	+ 50

Particulars	*2002 Rs.*	*2003 Rs.*	*Increase or Decrease in 2003 Rs.*	*Percentage of Increase or Decrease in 2003 (%)*
Fixed Assets	4,90,000	6,25,000	+ 1,35,000	+ 27.55
Total Assets	5,40,000	7,00,000	+ 1,60,000	+ 29.62
Liabilities and Capital :				
Current Liabilities	37,000	50,000	+ 13,000	+ 35.13
Total Current Liabilities	37,000	50,000	+ 13,000	+ 35.13
Long-Term Liabilities :				
Debenture	50,000	60,000	+ 10,000	+ 20
Long-Term Debts	2,00,000	2,50,000	+ 50,000	+ 25
Total Long-term Liabilities	2,50,000	3,10,000	+ 60,000	+ 24
Total Liabilities	2,87,000	3,60,000	+ 73,000	+ 25.43
Capital and Reserve :				
Preference Share Capital	1,00,000	1,50,000	+ 50,000	+ 50
Equity Share Capital	1,25,000	1,60,000	+ 35,000	+ 28
General Reserves	28,000	30,000	+ 2,000	+ 7.14
Total Capital & Reserve	2,53,000	3,40,000	+ 87,000	+ 34.38
Total Liabilities & Capital	5,40,000	7,00,000	+ 1,60,000	+ 29.62

Interpretation

The total current assets of the company have increased by 50% in 2003 as compared to 2002. The current liabilities has increased only to the extent of 33.15 %. This indicates that the company will have no problem to meet the day-to-day expenses. It also observed that the current financial position of the concern has considerably increased.

The fixed assets has increased by 29.62% compared to 2002. At the same time, long-term liabilities, share capital and reserve have considerably increased by 34.38%. It shows that the company has taken up expansion plans in a big way.

(2) Common Size Statements

In order to avoid the limitations of Comparative Statement, this type of analysis is designed. Under this method, financial statements are analysed to measure the relationship of various figures with some common base. Accordingly, while preparing the Common Size Profit and Loss Account, total sales is taken as common base and other items are expressed as a percentage of sales. Like this, in order to prepare the Common Size Balance Sheet, the total assets or total liabilities are taken as common base and all other items are expressed as a percentage of total assets and liabilities.

Illustration: 5

From the following particulars of AVS Ltd., for the year 2002 and 2003, you are required to prepare a comparative Income Statement :

Statement of Profit and Loss Account

Particulars	*2002 Rs.*	*2003 Rs.*
Net Sales	4,000	5,000
Less : Cost of Goods Sold	3,000	3,750
Gross Profit	1,000	1,000
Less : Operating Expenses :		
Office & Administrative Expenses	200	250
Selling & Distribution Expenses	225	300
Total Operating Expenses	425	550
Net Profit	575	700

Solution:

Common Size Income Statement

Particulars	*2002 Rs.*	*Percentage (%)*	*2003 Rs.*	*Percentage (%)*
Net sales	4,000	100	5000	100
Less : Cost of Goods Sold	3,000	75	3750	75
Gross Profit	1,000	25	1250	25
Less : Operating Expenses :				
Office and Administrative Expenses	100	2.5	100	2
Selling and Distribution Expenses	150	3.75	200	4
Total Operating Expenses	250	6.25	300	6
Net Profit	750	18.75	950	19

Illustration: 6

From the following Balance Sheet, prepare a Common Size Statement:

Balance Sheet

Liabilities	*2002 Rs.*	*2003 Rs.*	*Assets*	*2002 Rs.*	*2003 Rs.*
Share Capital	2,64,000	2,80,000	Cash in Hand	10,000	10,750
Current Liabilities	65,000	70,000	Cash at Bank	3,500	5,000
Long-term Debt	1,00,000	87,500	Bills Receivable	22,500	22,750
Bills Payable	12,500	—	Sundry Debtors	90,000	85,000
Sundry Creditors	10,000	16,000	Inventories	70,000	83,000
Bank Overdraft	50,000	71,500	Fixed Assets	3,00,000	3,07,500
			Prepaid Expenses	5,500	10,500
	5,01,500	5,25,000		5,01,500	5,25,000

Solution:

Common Size Balance Sheet

Particulars	*2002 Rs.*	*Percentage (%)*	*2003 Rs.*	*Percentage (%)*
Assets :				
Current Assets :				
Cash in Hand	10,000	1.99	10,750	2.05
Cash at Bank	3,500	0.69	5,000	0.95
Sundry Debtors	90,000	17.95	85,000	16.29
Inventories	70,000	13.96	83,000	15.81
Bills Receivable	22,500	4.48	22,750	4.3
Prepaid Expenses	5,500	1.09	10,500	2.00
Total Current Assets	2,01,500	40.18	2,17,500	41.43
Fixed Assets	3,00,000	59.82	3,07,500	58.57
Total Assets	5,01,500	100 %	5,25,000	100%

Common Size Balance Sheet

Particulars	*2002 Rs.*	*Percentage (%)*	*2003 Rs.*	*Percentage (%)*
Liabilities & Capital :				
Current Liabilities	65,000	12.96	70,000	13.33
Bills Payable	12,500	2.50	—	—
Sundry Creditors	10,000	1.99	16,000	3.05
Bank Overdraft	50,000	9.97	71,500	13.62
Total Current Liabilities :	1,37,500	27.42	1,57,500	30
Long-Term Liabilities :				
Long-Term Debts	1,00,000	19.94	87,500	16.66
Capital and Reserve :				
Share Capital	2,64,000	52.64	2,80,000	53.34
Total Liabilities	5,01,500	100 %	5,25,000	100%

Illustration: 7

From the following Profit · and Loss account and Balance sheet, you are required to prepare (a) Comparative Income Statements (b) Comparative Balance sheet (c) Common size Income Statement and (d) Common size Balance sheet.

Profit and Loss Account

Particulars	*2002 Rs.*	*2003 Rs.*	*Particulars*	*2002 Rs.*	*2003 Rs.*
To opening Stock of Materials	25,000	30,000	By Net Sales	2,00,000	2,25,000
To Purchases	1,00,000	1,25,000	By Closing Stock	25,000	30,000
To Direct Wages	15,000	17,000	By Non-Operating Income	10,000	15,000
To Freight and Carriage	2,000	3,000			
To Other Factory Expenses	1,000	2,000			

To Office & Admi. Expenses	5,000	6,000			
To Selling and Distribution Expn.	7,000	8,000			
To Non-Operating Expenses	5,000	7,000			
To Net Profit c/d	75,000	72,000			
	2,35,000	2,70,000		2,35,000	2,70,000

Balance Sheet as on 31st Dec.......

Liabilities	*2002 Rs.*	*2003 Rs.*	*Assets*	*2002 Rs.*	*2003 Rs.*
Bills Payable	5,000	7,000	Cash in hand	3,000	5,000
Sundry Creditors	10,000	15,000	Cash at Bank	10,000	20,000
Provision for Tax	7,000	10,000	Bills Receivable	7,000	10,000
Proposed Dividend	5,000	8,000	Sundry Debtors	10,000	15,000
Bank Overdraft	10,000	10,000	Stock in Trade	20,000	25,000
Debenture	50,000	60,000	Land & Buildings	2,00,000	2,50,000
Preference Share			Goodwill	1,00,000	1,25,000
Capital	1,00,000	1,50,000	Furniture & Fixtures	40,000	50,000
Equity Share Capital	1,25,000	1,60,000	Plant & Machinery	1,50,000	2,00,000
Long-Term Loans	2,00,000	2,50,000			
General Reserve	28,000	30,000			
	5,40,000	7,00,000		5,40,000	7,00,000

Solution:

(A) Comparative Income Statement
For the year ending ....

Particulars	*2002 Rs.*	*2003 Rs.*	*Increase or Decrease in 2003 Rs.*	*Percentage of Increase or Decrease in 2003*
Opening stock of Raw Material	25,000	30,000	+ 5,000	+ 20%
Add : Purchases	1,00,000	1,25,000	+ 25,000	+ 25%
	1,25,000	1,55,000	+ 30,000	+ 24%
Add : Freight and Carriage	2,000	3,000	+ 1,000	+ 50%
	1,27,000	1,58,000	+ 31,000	+ 24.40%
Less : Closing Stock	25,000	30,000	+ 5,000	+ 20%
Raw Materials Consumed (1)	1,02,000	1,28,000	+ 36,000	+ 35.29%
Add : Direct Wages	15,000	17,000	+ 2,000	+ 13.33%
Other Factory Expenses	1,000	2,000	+ 1,000	+ 50%
Cost of Goods Sold (2)	1,18,000	1,47,000	+ 39,000	+ 33.05%
Net Sales (3)	2,00,000	2,25,000	+ 25,000	+ 12.5%
Gross Profit (3 – 2) = (4)	82,000	78,000	- 4,000	- 4.87%
(Net Sales – Cost of Goods Sold)				
Less : Operating Expenses :				
Office & Administrative Expenses	5,000	6,000	+ 1,000	+ 20%
Selling & Distribution Expenses	7,000	8,000	+ 1,000	+ 14.28%
Total Operating Expenses (5)	12,000	14,000	+ 2,000	+ 16.66%

Net Operating Profit (4 – 5) = (6)	70,000	64,000	- 6,000	- 8.57%
(Gross Profit – Net Operating Profit)				
Add: Non-Operating Income	10,000	15,000	+ 5,000	+ 50%
Total Operating Income (7)	80,000	79,000	- 1,000	- 1.25%
Less: Non-Operating Expenses	5,000	7,000	+ 2,000	+ 40%
Net Profit (8)	75,000	72,000	- 3,000	- 4%

(B) Comparative Balance sheet as on 31st ....

Particulars	*2002 Rs.*	*2003 Rs.*	*Increase or Decrease in 2003 Rs.*	*Percentage of Increase or Decrease in 2003*
Assets :				
Liquid Assets				
Cash in hand	3,000	5,000	+ 2,000	+ 66.66%
Cash at Bank	10,000	20,000	+ 10,000	+ 10%
Bills Receivable	7,000	10,000	+ 3,000	+ 42.85%
Sundry Debtors	10,000	15,000	+ 5,000	+ 50%
Total Liquid Assets (1)	30,000	50,000	+ 20,000	+ 66.66%
Add : Stock-in-trade	20,000	25,000	+ 5,000	+ 25%
Total Current Assets (2)	50,000	75,000	+ 25,000	+ 50%
Fixed Assets :				
Land and Buildings	2,00,000	2,50,000	+ 50,000	+ 25%
Plant and Machinery	1,50,000	2,00,000	+ 50,000	+ 33.33%
Goodwill	1,00,000	1,25,000	+ 25,000	+ 25%
Furniture and Fixtures	40,000	50,000	+ 10,000	+ 25%
Total Fixed Assets (3)	4,90,000	6,25,000	+ 1,35,000	+ 27.55%
Total Assets (2 + 3) = (4) (Total Current Assets + Fixed Assets)	5,40,000	7,00,000	+ 1,60,000	+ 29.62%
Liabilities and Capital :				
Current Liabilities :				
Bills Payable	5,000	7,000	+ 2,000	+ 40%
Sundry Creditors	10,000	15,000	+ 5,000	+ 50%
Bank Overdraft	10,000	10,000	—	—
Provision for tax	7,000	10,000	+ 3,000	+ 42.85%
Proposed Dividend	5,000	8,000	+ 3,000	+ 60%
Total Current Liabilities (1)	37,000	50,000	+ 13,000	+ 35.13%
Long-Term Liabilities :				
Debenture	50,000	60,000	+ 10,000	+ 20%
Long-Term Loans	2,00,000	2,50,000	+ 50,000	+ 25%
Total Long-Term Liabilities (2)	2,50,000	3,10,000	+ 60,000	+ 24%
Total Liabilities (2 + 1) = (3)	2,87,000	3,60,000	+ 73,000	+ 25.45%
Capital and Reserve :				
Preference Share Capital	1,00,000	1,50,000	+ 50,000	+ 50%
Equity Share Capital	1,25,000	1,60,000	+ 35,000	+ 28%
General Reserve	28,000	30,000	+ 2,000	+ 7.14%
Total Shareholders Fund (4)	2,53,000	3,40,000	+ 87,000	+ 34.38%
Total Liabilities and Capital (5) = (3 + 4)	5,40,000	7,00,000	+ 1,60,000	+ 29.62%

(C) Common Size Income Statements

Particulars	2002 Rs.	Percentage (%)	2003 Rs.	Percentage (%)
Opening stock of Raw Material	25,000	12.5%	30,000	13.33%
Add : Purchases	1,00,000	50%	1,25,000	55.55%
Freight and Carriage	2,000	1%	3,000	1.33%
	1,27,000	63.5%	1,58,000	70.22%
Less : Closing Stock	25,000	12.5%	30,000	13.33%
Raw Materials Consumed (1)	1,02,000	51%	1,28,000	56.88%
Add : Direct Wages	15,000	7.5%	17,000	7.55%
Other Factory Expenses	1,000	0.5%	2,000	0.88%
Cost of Goods Sold (2)	1,18,000	59%	1,47,000	65.33%
Gross Profit (4)	82,000	41%	78,000	34.67%
Net Sales (3)	2,00,000	100%	2,25,000	100%
Less : Operating Expenses :				
Office & Administrative Expenses	5,000	2.5%	6,000	2.66%
Selling & Distribution Expenses	7,000	3.5%	8,000	3.55%
Total Operating Expenses (5)	12,000	6%	14,000	6.22%
Net Operating Profit (6)	70,000	35%	64,000	28.44%
(Gross Profit – Total Operating Expenses)				
Add : Non-Operating Income	10,000	5%	15,000	6.66%
	80,000	40%	79,000	35.11%
Less : Non-Operating Expenses	5,000	2.5%	7,000	3.11%
Net Profit (7)	75,000	37.5%	72,000	32%
Current Liabilities :				
Short-Term Loan	65,000	12.96%	70,000	13.33%
Bills Payable	12,500	2.50%	—	—
Sundry Creditors	10,000	1.99%	16,000	3.05%
Bank Overdraft	50,000	9.97%	71,500	13.62%
Total Current Liabilities	1,37,500	27.42%	1,57,500	30%
Long-Term Liabilities :				
Long-Term debts	1,00,000	19.94%	87,500	16.66%
Capital and Reserve :				
Share Capital	2,64,000	52.64%	2,80,000	53.34%
Total Liabilities and Capital	5,01,500	100%	5,25,000	100%

(D) Common Size Balance Sheet

Particulars	2002 Rs.	Percentage (%)	2003 Rs.	Percentage (%)
Assets				
Liquid Assets:				
Cash in hand	3,000	0.55%	5,000	0.71%
Cash at Bank	10,000	1.85%	20,000	2.85%
Bills Receivable	7,000	1.29%	10,000	1.42%
Sundry Debtors	10,000	1.85%	15,000	2.14%
Total Liquid Assets (1)	30,000	5.55%	50,000	7.14%
Add : Stock in trade	20,000	3.70%	25,000	3.57%
Total Current Assets (2)	50,000	9.25%	75,000	10.72%

Fixed Assets:				
Land and Building	2,00,000	37.03%	2,50,000	35.71%
Plant and Machinery	1,50,000	27.78%	2,00,000	28.57%
Goodwill	1,00,000	18.50%	1,25,000	17.85%
Furniture and Fixtures	40,000	7.40%	50,000	7.14%
Total Fixed Assets (3)	4,90,000	90.75%	6,25,000	89.28%
Total Assets (2+3) = (4)	5,40,000	100	7,00,000	100%
(Current Assets + Fixed Assets)				
Liabilities and Capital:				
Current Liabilities:				
Bills Payable	5,000	0.92%	7,000	1%
Sundry Creditors	10,000	1.85%	15,000	2.14%
Bank Overdraft	10,000	1.85%	10,000	1.42%
Provision for Tax	7,000	1.29%	10,000	1.42%
Proposed Dividend	5,000	0.92%	8,000	1.14%
Total Current Liabilities (1)	37,000	6.85%	50,000	7.14%
Long-Term Liabilities:				
Debenture	50,000	9.25%	60,000	8.57%
Long-Term Loan	2,00,000	37.03%	2,50,000	35.71%
Total Liabilities (2)	2,87,000	53.14%	3,60,000	51.43%
Capital and Reserve:				
Preference Share Capital	1,00,000	18.51%	1,50,000	21.42%
Equity Share Capital	1,25,000	23.14%	1,60,000	22.85%
General Reserve	28,000	5.18%	30,000	4.28%
Total Share holders Fund (3)	2,53,000	46.85%	3,40,000	48.57%
Total Liabilities & Capital (2 + 3) = (4)	5,40,000	100%	7,00,000	100%

Interpertations

From the above statements, it is observed that the sales have gone up in 2003, the rate of increase to the extent of 34.67%. The cost of goods sold and its percentage increased by 65.33%. Administrative and selling and distribution expenses have been increased by 2.66% and 3.55% respectively. The rate of net profit is also increased to the extent of 32%. This indicates the overall profitability of the concern is good.

The total current assets of the company has increased by 10.72%. While current liabilities have increased only to the extent of 7.14%. This indication of liquidity position of the firm is highly satisfactory. The total fixed assets have increased by 89.28% but at the same time long-term liabilities, capital and reserves have increased by 48.57%. It is observed that overall financial position of the business concern is good.

(3) Trend Analysis

Trend Analysis is one of the important technique which is used for analysis and interpretations of financial statements. While applying this method, it is necessary to select a period for a number of years in order to ascertain the percentage relationship of various items in the financial statements comparing with the items in base year. When a trend is to be determined by applying this method, earliest year or first year is taken as the base year. The related items in the base year are taken as 100 and based on this trend percentage of corresponding figures of financial statements in the other years are concluded. This analysis is useful in framing suitable policies and forecasting in future also.

Illustration: 8

Calculate the trend percentage from the following figures of Ram & Co. Ltd. The year 1999 is taken as the base year.

Year	*Sales*	*Cost of Goods Sold Rs.*	*Gross Profit Rs.*
1999	2000	1400	600
2000	2500	1800	700
2001	3000	2200	800
2002	3500	2600	900
2003	4000	3000	1000

Solution:

Ram & Co. Ltd.,
Trend Percentage

Year	*Sale*		*Cost of Goods Sold*		*Gross Profit*	
	Amount Rs.	*Trend (%) Percentage*	*Amount Rs.*	*Trend (%) Percentage*	*Amount Rs.*	*Trend (%) Percentage*
1999	2000	100	1400	100	600	100
2000	2500	125	1800	128.57	700	116.66
2001	3000	150	2200	157.14	800	133.33
2002	3500	175	2600	185.71	900	150
2003	4000	200	3000	214.28	1000	166.66

(4) Fund Flow Analysis

Fund Flow Analysis is one of the important methods for analysis and interpretations of financial statements. This is the statement which acts as a supplementary statement to the profit and loss account and balance sheet. Fund Flow Analysis helps to determine the changes in financial position on working capital basis and on cash basis. It also reveals the information about the sources of funds and has been utilized or employed during particular period.

(5) Ratio Analysis

Ratio Analysis is one of the important techniques which is used to measure the establishment of relationship between the two interrelated accounting figures in financial statements. This analysis helps to Management for decision making. Ratio Analysis is an effective tool which is used to ascertain the liquidity and operational efficiency of the concern.

QUESTIONS

1. What is meant by Financial Analysis?
2. What do you understand by financial statements?
3. Explain briefly the nature and scope of financial statements.
4. Discuss the important objectives of financial statements.
5. What are limitations of financial statements?
6. Explain the analysis and interpretation of financial statements.
7. Explain different types of analysis and interpretations.
8. Write short notes on :
   (a) Horizontal Analysis.
   (b) Vertical Analysis.
   (c) External and Internal Analysis.
9. Explain in brief the procedure for preparing the comparative financial statements.

10. Draw a specimen form of Methodical Classification of Income Statements and Balance Sheet.
11. Discuss the different techniques or tools of Financial Analysis.
12. What do you understand by Trend Analysis?
13. Write a brief note on Common Size Statements.
14. What is Fund Flow Analysis?

PRACTICAL PROBLEMS

(1) The following are the income statements of ABC Ltd. Madras for the years 2002 and 2003 convert into a Comparative Income Statements and Comment on the Profitability of the Company.

Income Statements

Particulars	*2002* *Rs.*	*2003* *Rs.*	*Particulars*	*2002* *Rs.*	*2003* *Rs.*
To Opening Stock	1,70000	4,00,000	By Sales	20,00,000	24,00,000
To Purchases	10,00,000	11,00,000	By Closing stock	4,00,000	4,50,000
To Wages	1,20,000	1,60,000	By Income from Investment	24,000	30,000
To Salaries	84,000	1,28,000			
To Rent & Rates	70,000	80,000	By Dividend Received	10,000	15,000
To Depreciation	80,000	1,20,000			
To Selling Expenses	24,000	24,000			
To Discount Allowed	10,000	10,000			
To Loss on sales of Plant	—	16,000			
To Interest Paid	24,000	28,000			
To Net Profit	8,52,000	8,25,000			
	24,34,000	28,95,000		24,34,000	28,95,000

(2) The following are the particulars of Balance sheet for the year 2002 and 2003. You are required to convert into a Comparative Balance Sheet :

Particulars	*2002*	*2003*
Equity Share Capital	8,00,000	20,00,000
Preference Share Capital	4,00,000	4,00,000
General Reserve	2,00,000	5,00,000
Accounts Payable	2,00,000	4,00,000
Outstanding Expenses	1,00,000	1,00,000
Profit and Loss Account	4,00,000	6,00,000
	21,00,000	40,00,000
Fixed Assets	8,00,000	20,00,000
Investments	6,00,000	2,00,000
Bills Receivable	4,00,000	8,00,000
Stock	2,00,000	8,00,000
Cash at Bank	50,000	1,00,000
Cash in Hand	50,000	1,00,000
	21,00,000	40,00,000

(3) From the following Balance, Prepare a Common Size Statement:

Particulars	*2002* *Rs.*	*2003* *Rs.*
Asset:		
Cash in Hand	20,000	21,500
Cash at Bank	7,000	10,000
Sundry Debtors	1,80,000	1,70,000
Inventories	1,40,000	1,66,000
Bills Receivable	45,000	45,500
Prepaid Expenses	11,000	21,000

Fixed Assets	6,00,000	1,05,000
Total Assets	10,03,000	10,05,000
Liabilities & Capital :		
Share Capital	5,28,000	5,60,000
Short-term Loans	1,30,000	1,40,000
Long-Term Debt	2,00,000	1,75,000
Bills Payable	25,000	—
Sundry Creditors	20,000	32,000
Bank Overdraft	1,00,000	1,43,000
	10,03,000	10,05,000

(4) From the following Income Statements, you are required to Convert into Common Size Statement and comment on the Prevailing Conditions :

Income Statement

Particulars	*2002* *Rs.*	*2003* *Rs.*
Sales	16,400	19,500
Less : Sales Return	400	450
Net Sales	16,000	19,100
Less : Cost of Sales	13,500	12,100
Gross Profit	2,500	7,000
Less : Operating Expenses :		
Administrative & General Expenses	750	1,550
Selling & Distribution Expenses	1,320	2,670
Total Operating Expenses	2,070	4,220
Operating Profit	430	6,780
Add : Non-Operating Income	50	175
Total Income	480	6,955
Less : Non-Operating Expenses	45	300
Net Profit for the year	435	6,655

(5) Following income statement of a business are given for the year ending 31st December 2002 and 2003, rearrange them in a comparative form and make comments.

Income Statements

Particulars	*2002* *Rs.*	*2003* *Rs.*	*Particulars*	*2002* *Rs.*	*2003* *Rs.*
To Cost of goods sold	9,00,000	9,50,000	By Sales	15,25,000	17,00,000
To Administrative Expenses	93,250	95,980	By Interest and Dividend	7,500	6,200
To Selling Expenses	1,90,000	2,09,000	By Profit from sale of old assets	6,000	8,000
To Interest Paid	8,000	7,000			
To Loss on Sale of Machinery	2,500	800			
To Income Tax	85,000	1,68,000			
To Net Profit	2,59,750	2,83,420			
	15,38,500	17,14,200		15,38,500	17,14,200

[**Ans** : Gross profit and Net profit have improved satisfactorily]

(6) From the following information, you are required to prepare a common size statement and make comments.

Balance Sheet

Liabilities	*2002 Rs.*	*2003 Rs.*	*Assets*	*2002 Rs.*	*2003 Rs.*
Sundry Creditors	42,000	1,54,000	Cash	27,000	72,000
Other liabilities	78,000	62,000	Sundry Debtors	2,20,000	2,26,000
Fixed liabilities	2,25,000	3,18,000	Stock	1,00,000	1,74,000
Capital	6,58,000	4,93,000	Prepaid Expenses	11,000	21,000
			Other Current Assets	10,000	21,000
			Fixed Assets	6,35,000	5,13,000
	10,03,000	10,27,000		10,03,000	10,27,000

(7) The following information is the Income Statement and Balance Sheet of Raman & Co. Ltd. for the year 2002 and 2003, you are required to prepare common size income statement and Balance sheet for the two years.

Dr. **Trading, Profit and Loss A/c** **Cr.**

Particulars	*2002 Rs.*	*2003 Rs.*	*Particulars*	*2002 Rs.*	*2003 Rs.*
To Cost of Sales	2,40,000	3,50,000	By Sales	4,00,000	5,00,000
To Gross Profit c/d	1,60,000	1,50,000			
	4,00,000	5,00,000		4,00,000	5,00,000
To Operating Expenses:					
Administration	25,000	30,000	By Gross Profit b/d	1,60,000	1,50,000
Selling Expense	15,000	20,000	By Interest on		
Distribution Expenses	10,000	10,000	Investments	20,000	50,000
To Non-Operating Expenses :					
Donation	20,000	20,000			
Goodwill Written off	10,000	—			
To Net Profit	1,00,000	1,20,000			
	1,80,000	2,00,000		1,80,000	2,00,000

Balance Sheet

Liabilities	*2002 Rs.*	*2003 Rs.*	*Assets*	*2002 Rs.*	*2003 Rs.*
Share Capital	2,00,000	3,00,000	Buildings	4,00,000	4,00,000
Reserves	6,00,000	7,00,000	Machinery	6,00,000	10,00,000
10% Debentures	2,00,000	3,00,000	Stock	2,00,000	3,00,000
Creditors	3,00,000	5,00,000	Debtors	2,00,000	2,50,000
Bills Payable	1,00,000	80,000	Cash at Bank	10,000	50,000
Tax Payable	1,00,000	1,20,000			
	15,00,000	20,00,000		15,00,000	20,00,000

[**Ans :** Gross profit 30% ; Operating profit 18%; Net Profit 24%; Total Current Assets 30%; Fixed Assets 70%; Current Liabilities 35%]

(8) From the following profit and loss account and Balance sheets for the year ended 31st Dec. 2002 and 2003, prepare comparative income statements and comparative Balance sheet.

Profit and Loss A/c

Particulars	*2002 Rs.*	*2003 Rs.*	*Particulars*	*2002 Rs.*	*2003 Rs.*
To Cost of Sales	3,00,000	3,75,000	By Sales	4,00,000	5,00,000
To Office & Administrative Expen.	10,000	10,000			
To Selling Expenses	15,000	20,000			
To Net Profit	75,000	95,000			
	4,00,000	5,00,000		4,00,000	5,00,000

Balance Sheet

Liabilities	*2002 Rs.*	*2003 Rs.*	*Assets*	*2002 Rs.*	*2003 Rs.*
Bills Payable	25,000	37,500	Cash	50,000	70,000
Sundry Creditors	75,000	1,00,000	Debtors	1,00,000	1,50,000
Tax Payable	50,000	75,000	Stock	1,00,000	1,50,000
10% Debentures	50,000	75,000	Land	50,000	50,000
10% Preference Shares	1,50,000	1,50,000	Buildings	1,50,000	1,35,000
Equity Shares	2,00,000	2,00,000	Plant	1,50,000	1,35,000
Reserves	1,00,000	1,22,500	Furniture	50,000	70,000
	6,50,000	7,60,000		6,50,000	7,60,000

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