

Chapter-9

Analysis of Financial statement

Financial Statements analysis is a systematic process of studying the relationship among the various financial factors contained in the financial statements to have a better understanding of the working and the financial position of a business.

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

-Finney and Miller

in simple words analysis of financial statements is a more comprehensive study of balance sheet and profit and loss account using the tools of analysis to get a proper understanding of profitability and financial position of the business.

Objectives or Purposes of Financial Statement Analysis

To measure the **Profitability or Earning Capacity** of the business -analysis helps in measuring the profits and earning capacity of a business. it helps in judging whether the profits are accurate or not.

To measure the **Financial Strength** of the business - analysis helps in understanding the financial positions of the company. it helps in judging the financial health of the business.

To make **Comparative Study** within the firm (intra – firm) and with other firms (inter-firm)- analysis helps in comparisons of financial statements. There are two types of comparisons-

intra firm- it is the comparison within the business ie previous year and the current year or from one department to another. it is also known as trend analysis.

inter-firm- it is the comparison of one business to another ie comparing one company to another. it is known as cross-sectional analysis.

To judge the **Efficiency of Management**- profits and assets of the business help in judging the efficiency of the business ie whether the business is efficiently utilizing its resources or not.

To provide **Useful Information** to the Management- analysis helps the management to get useful insight into the business which helps them in taking many managerial decisions.

To find out the **Capability for payment of interest, dividend**, etc.- profitability of the business helps in judging whether the business will be able to pay interest and dividend. the analysis helps in judging the capability of the business of payment of interest and dividend.

To measure the **Short-term and Long-term Solvency** of the business- analysis helps in judging whether the business will be able to pay its short term and long term dues.

Limitation of Financial Statement Analysis

Based on the basic financial statement which themselves suffer from certain limitations- financial accounting has certain disadvantages itself which becomes the limitation of its analysis for example financial accounting records only historical cost which becomes the limitation of its analysis.

Ignores changes in price level.- financial accounting analysis does not take into consideration the current changes in the prices in the economy.

Affected by the personal ability and bias of the analyst.- since analysis is done by the accountant he or she applies their own personal judgment while using the tools of analysis which affect the analysis.

Lack of qualitative analysis as only those transactions and events are recorded which can be measured in terms of money.- only those transactions in financial statements can be analyzed which can be measured in money.

When different accounting policies are followed by the two firms then the comparison between their financial statement becomes unreliable.- since accounting is dependent upon the personal judgment of the accountants sometimes different policies adopted by accountant makes it difficult to compare the financial statements

Analysis of single year's financial statement has limited use- single year financial statements are of limited use as they cannot be used for inter-firm and intra firm comparisons.

Also affected by the Window dressing- if the values of different assets and liabilities are not shown at fair value the analysis will not give a fair picture of the business.

Types of Financial Statement Analysis

There are two main approaches to the analysis of financial statements.

1. **Horizontal Analysis:** In this type of analysis, figures in the financial statements for two or more years are compared and analyzed. It helps in knowing the trends of the business over a while. It is also known as Time series analysis or Dynamic Analysis. Comparative statements and cash flow statements are an example of horizontal analysis. It is also known as intra firm analysis
2. **Vertical Analysis:** In this type of analysis, figures in the financial statement for a single year are analyzed. It involves the study of the relationship between various items of Balance Sheet or statement of Profit & Loss of a single year or period. It is also known as Static Analysis.

Common size statements and ratio analysis relating to a particular accounting period are examples of this type of analysis. It is also called the inter-firm analysis.

Significance or Importance of Financial Analysis:

The importance of the analysis is for two users-

i) **internal users**- these are the users within the business which require analysis of financial statements. the internal users are-

For Management: To know the profitability, liquidity, and solvency position to measure the effectiveness of its own decisions taken and to take corrective measures in the future.

For employees: employees need analysis to know about the profitability of the business as it is directly related to the salary and bonus they will get.

2) **external users**- these are the users outside the business which require analysis of financial statements. the external users are -

For Investors: Investors want to know the earning capacity and future growth prospects of the business which helps in assessing the safety of their investment and reasonable return.

For Creditors: Short-term creditors want to know the liquidity position of the business whereas long term creditors want to know about the solvency position and ability to pay the interest consistently.

For Govt: To know the profitability position for taking taxation decisions and to make decisions about the price regulations.

For Employees: To know the progress of the company for assessing bonuses, possible increase in wages, and to ensure the stability of their jobs.

For Customers: To know about the continuance of the business in the future.

Common Size and Comparative

Statements Format of Statement of Profit and Loss

Revenue from operations		xxx
Other Incomes	<u>xxx</u>	
Total Revenue	<u>xxx</u>	
Expenses:		
Cost of material		xxx
Employee benefit expense	<u>xxx</u>	
Total Expenses	<u>xxx</u>	
Profit before tax		xxx
Tax expense	<u>xxx</u>	
Profit after tax	<u>xxx</u>	

From the following information prepare a comparative income Statement of victor Ltd.

	2006	2007
Revenue from Operations	15,00,000	18,00,000
Cost of Goods Sold	11,00,000	14,00,000
Indirect Expenses	20% of Gross Profit	25% of Gross Profit
Income Tax	50%	50%

Solution 1. Comparative Income Statement For the year
2006 and 2007

Particulars	2006	2007	Absolute Change	%Change
Revenue from Operations	15,00,000	18,00,000	3,00,000	+20%
Less: Cost of Goods Sold	11,00,000	14,00,000	3,00,000	+27.27%
Gross Profit	4,00,000	4,00,000		
Less: Indirect Expenses	80,000	1,00,000	20,000	+25%
Net Profit before tax	3,20,000	3,00,000	-20,000	-6.25%
Less: Income Tax	1,60,000	1,50,000	-10,000	-6.25%
Net Profit After Tax	1,60,000	1,50,000	-10,000	-6.25%

Prepare a Comparative Income Statement of Ahmed Ltd., with the help of the following information:

	31.3.2000	31.3.2001
Revenue from Operations	5,00,000	8,00,000
Cost of Goods Sold	3,00,000	5,00,000
Direct Expenses	40,000	20,000
Indirect Expenses	30,000	40,000
Income Tax	40%	50%

Solution 2.**Comparative Income Statement**

Particular	31.3.2000	31.3.2001	Absolute Change	%Change
Revenue from Operations	5,00,000	8,00,000	3,00,000	60.00
Less: Cost of Goods Sold	3,00,000	5,00,000	2,00,000	66.67
Gross Profit	2,00,000	3,00,000	1,00,000	50.00
Less: Indirect Expenses	30,000	40,000	10,000	33.33
Net profit before Tax	1,70,000	2,60,000	90,000	52.94
Less: Income Tax	68,000	1,30,000	62,000	91.18
Net Profit after Tax	1,02,000	1,30,000	28,000	27.45

Hint: Direct expenses are ignored since they are already included in the cost of goods sold.
Prepare a Comparative Income Statement from the following information

Question--

Particulars	31.3.2009	31.3.2010
Revenues from Operations	30,00,000	40,00,000
Cost of Goods Sold	60% of Sales	55% of Sales
Paid wages	25,000	30,000
Operating Expenses	20% of Gross Profit	25% of Gross Profit
Income Tax	40%	40%

(C.B.S.E. 20011, Set II)

Solution 3.**Comparative Income Statement**

for the years ended on 31st March 2009 and 2010

Particular	31.3.2009	31.3.2010	Absolute Change	% Increase or Decrease
Revenue from Operations	30,00,000	40,00,000	10,00,000	33.33
Less: Cost of Goods Sold	18,00,000	22,00,000	4,00,000	22.22
Gross Profit	12,00,000	18,00,000	6,00,000	50.00
Less: Operating Expenses	2,40,000	4,50,000	2,10,000	87.50
Net Profit before Tax	9,60,000	13,50,000	3,90,000	40.63
Less: Income Tax @ 40%	3,84,000	5,40,000	1,56,000	40.63
Net Profit after tax	5,76,000	8,10,000	2,34,000	40.63

Note: Wages are a direct expense. It is ignored because it is already included in the cost of goods sold.

1. From the following details make out a comparative and common size statements:

<i>Particulars</i>	<i>2011 `</i>	<i>2012 `</i>
Revenue from operations	16,00,000	20,00,000
Cost of Goods Sold	8,00,000	10,00,000
Indirect Expenses	2,00,000	1,00,000
Tax rate of 40%		

Solution:**Comparative Income Statement**

<i>Particulars</i>	<i>2011 `</i>	<i>2012 `</i>	<i>Absolute Change</i>	<i>% Change</i>
Revenue from operations	16,00,000	20,00,000	4,00,000	25
Less: Cost of Goods Sold	8,00,000	10,00,000	2,00,000	25
Gross Profit	8,00,000	10,00,000	2,00,000	25
Less: Indirect Expenses	2,00,000	1,00,000	(1,00,000)	(50)
Net Profit before Tax	6,00,000	9,00,000	3,00,000	50
Less: Income Tax	2,40,000	3,60,000	1,20,000	50
Net Profit after Tax	3,60,000	5,40,000	1,80,000	50

Common Size Income Statement

<i>Particulars</i>	<i>2011 `</i>	<i>2012 `</i>	<i>Common Size</i>	
			<i>2011 `</i>	<i>2012 `</i>
Revenue from operations	16,00,000	20,00,000	100	100
Less: Cost of Goods Sold	8,00,000	10,00,000	50	50
Gross Profit	8,00,000	10,00,000	50	50
Less: Indirect Expenses	2,00,000	1,00,000	12.5	5
Net Profit before Tax	6,00,000	9,00,000	37.5	45
Less: Income Tax	2,40,000	3,60,000	15	18
Net Profit after Tax	3,60,000	5,40,000	22.5	27

1. Prepare a comparative and common-size income statement with the help of the following information:

<i>Particulars</i>	<i>2011 `</i>	<i>2012 `</i>
Revenue from operations	8,00,000	10,00,000
Cost of material	4,00,000	6,00,000
Employee benefit expense	1,50,000	2,00,000
Provision for Tax	1,00,000	1,30,000

Solution:

Comparative Income Statement

<i>Particulars</i>	<i>2011 `</i>	<i>2012 `</i>	<i>Absolute Change</i>	<i>% Change</i>
Revenue from operations	8,00,000	10,00,000	2,00,000	25
Less: Cost of material	4,00,000	6,00,000	2,00,000	50
Gross Profit	4,00,000	4,00,000	0	0
Less: Employee benefit expenses	1,50,000	2,00,000	50,000	33.33
Net Profit before Tax	2,50,000	2,00,000	(50,000)	(20)
Less: Provision for Tax	1,00,000	1,30,000	30,000	30
Net Profit after Tax	1,50,000	70,000	(80,000)	(53.33)

Common Size Income Statement

Particulars	2011 `	2012 `	Common Size	
			2011 `	2012 `
Revenue from operations	8,00,000	10,00,000	100	100
Less: Cost of material	4,00,000	6,00,000	50	60
Gross Profit	4,00,000	4,00,000	50	40
Less: Employee benefit expenses	1,50,000	2,00,000	18.75	20
Net Profit before Tax	2,50,000	2,00,000	31.25	20
Less: Provision for Tax	1,00,000	1,30,000	12.5	13
Net Profit after Tax	1,50,000	70,000	18.75	7

1. From the following information, prepare a comparative and common-size income statement:

Particulars	2011 `	2012 `
Revenue from Operations	13,20,000	18,00,000
Other Incomes	1,50,000	2,00,000
Cost of material	7,00,000	11,00,000
Employee benefit expense	2,50,000	3,50,000
Tax	50%	50%

Solution:

Comparative Income Statement

Particulars	2011 `	2012 `	Absolute Change	% Change
Revenue from operations	13,20,000	18,00,000	4,80,000	36.36
Less: Cost of material	7,00,000	11,00,000	4,00,000	57.14
Gross Profit	6,20,000	7,00,000	80,000	12.90
Less: Employee benefit expenses	2,50,000	3,50,000	1,00,000	40
Add: Other Incomes	1,50,000	2,00,000	50,000	33.33
Net Profit before Tax	1,00,000	1,50,000	50,000	50
Less: Provision for Tax	50,000	75,000	25,000	50
Net Profit after Tax	50,000	75,000	25,000	50

Common Size Income Statement

Particulars	2011 `	2012 `	Common Size	
			2011 `	2012 `

Revenue from operations	13,20,000	18,00,000	100	100
Less: Cost of material	7,00,000	11,00,000	53.03	61.11
Gross Profit	6,20,000	7,00,000	46.97	38.89
Less: Employee benefit expenses	2,50,000	3,50,000	18.94	19.44
Add: Other Incomes	1,50,000	2,00,000	11.36	11.11
Net Profit before Tax	1,00,000	1,50,000	7.58	8.33
Less: Provision for Tax	50,000	75,000	3.79	4.17
Net Profit after Tax	50,000	75,000	3.79	4.16

2. Prepare a horizontal and vertical income statement of 'S Ltd', with the help of the following information:

<i>Particulars</i>	<i>2011</i>	<i>2012</i>
Revenue from operations	1,00,000	2,00,000
Cost of material (of revenue)		60% 70%
Employee benefits expense (of revenue)	20%	25%

Rate of income tax 50% of profit before tax

Solution:

Comparative Income Statement

<i>Particulars</i>	<i>2011 `</i>	<i>2012 `</i>	<i>Absolute Change</i>	<i>% Change</i>
Revenue from operations	1,00,000	2,00,000	1,00,000	50
Less: Cost of material	60,000	1,40,000	80,000	133.33
Gross Profit	40,000	60,000	20,000	50
Less: Employee benefit expenses	20,000	50,000	30,000	150
Net Profit before Tax	20,000	10,000	(10,000)	(50)
Less: Provision for Tax	10,000	5,000	(5,000)	(50)
Net Profit after Tax	10,000	5,000	(5,000)	(50)

Common Size Income Statement

<i>Particulars</i>	<i>2011 `</i>	<i>2012 `</i>	<i>Common Size</i>	
			<i>2011 `</i>	<i>2012 `</i>

Revenue from operations	1,00,000	2,00,000	100	100
Less: Cost of material	60,000	1,40,000	60	70
Gross Profit	40,000	60,000	40	30
Less: Employee benefit expenses	20,000	50,000	20	25
Net Profit before Tax	20,000	10,000	20	5
Less: Provision for Tax	10,000	5,000	10	2.5
Net Profit after Tax	10,000	5,000	10	2.5

1. Prepare comparative and common-size income statement with the help of the following information:

<i>Particulars</i>	<i>2012</i>	<i>2011</i>
Revenue from operations	3,00,000	2,00,000
Cost of material (of revenue)	70%	60%
Employee benefits expense (of revenue)	20%	30%
Income Tax Rate (of profit before tax)	50%	50%

Solution:

Comparative Income Statement

<i>Particulars</i>	<i>2011 `</i>	<i>2012 `</i>	<i>Absolute Change</i>	<i>% Change</i>
Revenue from operations	2,00,000	3,00,000	1,00,000	50
Less: Cost of material	1,20,000	2,10,000	90,000	75
Gross Profit	80,000	90,000	10,000	12.5
Less: Employee benefit expenses	60,000	60,000	0	0
Net Profit before Tax	20,000	30,000	10,000	50
Less: Provision for Tax	10,000	15,000	5,000	50
Net Profit after Tax	10,000	15,000	5,000	50

Common Size Income Statement

<i>Particulars</i>	<i>2011 `</i>	<i>2012 `</i>	<i>Common Size</i>	
			<i>2011 `</i>	<i>2012 `</i>
Revenue from operations	2,00,000	3,00,000	100	100
Less: Cost of material	1,20,000	2,10,000	60	70
Gross Profit	80,000	90,000	40	30
Less: Employee benefit expenses	60,000	60,000	30	20
Net Profit before Tax	20,000	30,000	10	10
Less: Provision for Tax	10,000	15,000	5	5
Net Profit after Tax	10,000	15,000	5	5

1. Prepare comparative and common-size income statement with the help of the following information:

<i>Particulars</i>	2012	2011
Revenue from operations	5,00,000	4,00,000
Cost of material (of revenue)	60%	55%
Employee benefits expense (of revenue)	20%	25%
Income Tax Rate (of profit before tax)	50%	50%

Solution:

Comparative Income Statement

<i>Particulars</i>	2011 `	2012 `	Absolute Change	% Change
Revenue from operations	4,00,000	5,00,000	1,00,000	25
Less: Cost of material	2,20,000	3,00,000	90,000	40.91
Gross Profit	1,80,000	2,00,000	20,000	11.11
Less: Employee benefit expenses	1,00,000	1,00,000	0	0
Net Profit before Tax	80,000	1,00,000	20,000	25
Less: Provision for Tax	40,000	50,000	10,000	25
Net Profit after Tax	40,000	50,000	10,000	25

Common Size Income Statement

<i>Particulars</i>	2011 `	2012 `	Common Size	
			2011 `	2012 `
Revenue from operations	4,00,000	5,00,000	100	100
Less: Cost of material	2,20,000	3,00,000	55	60
Gross Profit	1,80,000	2,00,000	45	40
Less: Employee benefit expenses	1,00,000	1,00,000	25	20
Net Profit before Tax	80,000	1,00,000	20	20
Less: Provision for Tax	40,000	50,000	10	10
Net Profit after Tax	40,000	50,000	10	10

2. From the following balance sheets, prepare comparative and common size balance sheet of D Ltd.:

<u>Particulars</u>	Note No.	2010-11 `	2011-12 `
<u>Equity and Liabilities</u>			

(1) Shareholders Fund			
(a) Share Capital		15,00,000	20,00,000
(b) Reserves & Surplus		4,00,000	3,00,000
(2) Non-Current Liabilities			
Long Term Borrowings		6,00,000	9,00,000
(3) Current Liabilities			
Trade Payables		2,00,000	3,00,000
Total		27,00,000	35,00,000
Assets			
(1) Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		15,00,000	20,00,000
(ii) Intangible Assets		6,00,000	9,00,000
(2) Current Assets			
(a) Inventories		4,00,000	3,00,000
(b) Cash and Cash equivalents		2,00,000	3,00,000
Total		27,00,000	35,00,000

Solution:

Comparative Balance Sheet

<i>Particulars</i>	<i>2011 `</i>	<i>2012 `</i>	<i>Absolute Change</i>	<i>% Change</i>
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	15,00,000	20,00,000	5,00,000	33.33
(b) Reserves & Surplus	4,00,000	3,00,000	(1,00,000)	(25)
(2) Non-Current Liabilities				
Long Term Borrowings	6,00,000	9,00,000	3,00,000	50
(3) Current Liabilities				
Trade Payables	2,00,000	3,00,000	1,00,000	50
Total	27,00,000	35,00,000	8,00,000	29.63
Assets				
(1) Non-Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	15,00,000	20,00,000	5,00,000	33.33
(ii) Intangible Assets	6,00,000	9,00,000	3,00,000	50
(2) Current Assets				
(a) Inventories	4,00,000	3,00,000	(1,00,000)	(25)
(b) Cash and Cash equivalents	2,00,000	3,00,000	1,00,000	50
Total	27,00,000	35,00,000	8,00,000	29.63

Common Size Balance Sheet

<i>Particulars</i>	<i>2011 `</i>	<i>2012 `</i>	Common Size	
			<i>2011 `</i>	<i>2012 `</i>
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	15,00,000	20,00,000	55.56	57.14
(b) Reserves & Surplus	4,00,000	3,00,000	14.81	8.57
(2) Non-Current Liabilities				
Long Term Borrowings	6,00,000	9,00,000	22.22	25.71
(3) Current Liabilities				
Trade Payables	2,00,000	3,00,000	7.41	8.58
Total Assets	27,00,000	35,00,000	100	100
(1) Non-Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	15,00,000	20,00,000	55.56	57.14
(ii) Intangible Assets	6,00,000	9,00,000	22.22	25.71
(2) Current Assets				
(a) Inventories	4,00,000	3,00,000	14.81	8.57
(b) Cash and Cash equivalents	2,00,000	3,00,000	7.41	8.58
Total	27,00,000	35,00,000	100	100

3. From the following balance sheets, prepare comparative and common size balance sheet of D Ltd.:

Particulars	Note No.	2010-11 `	2011-12 `
<u>Equity and Liabilities</u>			
(1) Shareholders Fund			
(a) Share Capital		30,00,000	40,00,000
(b) Reserves & Surplus		4,00,000	6,00,000
(2) Non-Current Liabilities			
Long Term Borrowings		10,00,000	12,00,000
(3) Current Liabilities			
Trade Payables		6,00,000	2,00,000
Total		50,00,000	60,00,000
<u>Assets</u>			
(1) Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		30,00,000	40,00,000
(ii) Intangible Assets		6,00,000	2,00,000
(2) Current Assets			
(a) Inventories		10,00,000	12,00,000
(b) Cash and Cash equivalents		4,00,000	6,00,000
Total		50,00,000	60,00,000

Solution:

Comparative Balance Sheet

<i>Particulars</i>	<i>Mar. 31, 2011</i>	<i>Mar. 31, 2012</i>	Absolute Change	% Change
<u>Equity and Liabilities</u>				
(1) Shareholders Fund				
(a) Share Capital	30,00,000	40,00,000	10,00,000	33.33
(b) Reserves & Surplus	4,00,000	6,00,000	2,00,000	50
(2) Non-Current Liabilities				
Long Term Borrowings	10,00,000	12,00,000	2,00,000	20
(3) Current Liabilities				
Trade Payables	6,00,000	2,00,000	(4,00,000)	(66.67)
Total	50,00,000	60,00,000	10,00,000	20

Assets				
(1) Non-Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	30,00,000	40,00,000	10,00,000	33.33
(ii) Intangible Assets	6,00,000	2,00,000	(4,00,000)	(66.67)
(2) Current Assets				
(a) Inventories	10,00,000	12,00,000	2,00,000	20
(b) Cash and Cash equivalents	4,00,000	6,00,000	2,00,000	50
	50,00,000	60,00,000	10,00,000	20

Common Size Balance Sheet

Particulars	Mar. 31, 2011	Mar. 31, 2012	Common Size	
			2011	2012
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	30,00,000	40,00,000	60	66.67
(b) Reserves & Surplus	4,00,000	6,00,000	8	10
(2) Non-Current Liabilities				
Long Term Borrowings	10,00,000	12,00,000	20	20
(3) Current Liabilities				
Trade Payables	6,00,000	2,00,000	12	3.33
Total	50,00,000	60,00,000	100	100
Assets				
(1) Non-Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	30,00,000	40,00,000	60	66.67
(ii) Intangible Assets	6,00,000	2,00,000	12	3.33
(2) Current Assets				
(a) Inventories	10,00,000	12,00,000	20	20
(b) Cash and Cash equivalents	4,00,000	6,00,000	8	10
Total	50,00,000	60,00,000	100	100

4. From the following balance sheets, prepare comparative and common size balance sheet of D Ltd.:

Particulars	Note No.	2011-12 `	2010-11 `
<u>Equity and Liabilities</u>			
(1) Shareholders Fund			
Share Capital		3,50,000	3,00,000
(2) Non-Current Liabilities			
Long Term Borrowings		1,00,000	2,00,000
(3) Current Liabilities			
Trade Payables		1,50,000	1,00,000
Total		6,00,000	6,00,000
<u>Assets</u>			
(1) Non-Current Assets			
Fixed Assets		4,00,000	3,00,000
(i) Tangible Assets			
(2) Current Assets		2,00,000	3,00,000
(a) Inventories		6,00,000	6,00,000
Total			

Solution:

Comparative Balance Sheet

Particulars	Mar. 31, 2011	Mar. 31, 2012	Absolute Change	% Change
<u>Equity and Liabilities</u>				
(1) Shareholders Fund				
(a) Share Capital	3,00,000	3,50,000	50,000	16.67
(2) Non-Current Liabilities				
Long Term Borrowings	2,00,000	1,00,000	(1,00,000)	(50)
(3) Current Liabilities				
Trade Payables	1,00,000	1,50,000	50,000	50
	6,00,000	6,00,000	0	0

Total				
Assets				
(1) Non-Current Assets				
(a) Fixed Assets			1,00,000	33.33
(i) Tangible Assets	3,00,000	4,00,000		
(2) Current Assets			(1,00,000)	(33.33)
(a) Inventories				
Total	3,00,000	2,00,000		
	6,00,000	6,00,000	0	0

Common Size Balance Sheet

Particulars	Mar. 31, 2011	Mar. 31, 2012	Common Size	
			2011	2012
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	3,00,000	3,50,000	50	58.33
(2) Non-Current Liabilities				
Long Term Borrowings	2,00,000	1,00,000	33.33	16.67
(3) Current Liabilities				
Trade Payables	1,00,000	1,50,000	16.67	25
Total	6,00,000	6,00,000	100	100

Assets				
(1) Non-Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	3,00,000	4,00,000	50	66.67
(2) Current Assets				
(a) Inventories	3,00,000	2,00,000	50	33.33
Total	6,00,000	6,00,000	100	100

5. From the following balance sheets, prepare comparative and common size balance sheet of D Ltd.:

Particulars	Note No.	2010-11	2011-12
<u>Equity and Liabilities</u>			
(1) Shareholders Fund			
(a) Share Capital		9,00,000	7,50,000

(b) Reserves & Surplus		2,25,000	1,50,000
(2) Non-Current Liabilities			
Long Term Borrowings		3,00,000	4,20,000
(3) Current Liabilities			
Trade Payables		5,55,000	5,85,000
Total		19,80,000	19,05,000
Assets			
(1) Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		11,55,000	12,45,000
(2) Current Assets			
(a) Inventories		8,25,000	6,60,000
Total		19,80,000	19,05,000

Solution:

Comparative Balance Sheet

Particulars	Mar. 31, 2011	Mar. 31, 2012	Absolute Change	% Change
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	9,00,000	7,50,000	(1,50,000)	(16.67)
(b) Reserves & Surplus	2,25,000	1,50,000	(75,000)	(33.33)
(2) Non-Current Liabilities				
Long Term Borrowings	3,00,000	4,20,000	1,20,000	40
(3) Current Liabilities				

Trade Payables	5,55,000	5,85,000	30,000	5.41
Total				
Assets				
(1) Non-Current Assets				
(a) Fixed Assets				
(i) Tangible Assets				
(2) Current Assets	19,80,000	19,05,000	75,000	3.79
(a) Inventories				
Total				
	11,55,000	12,45,000	90,000	7.79

	8,25,000	6,60,000	(1,65,000)	20
	19,80,000	19,05,000	75,000	3.79



Common Size Balance
Sheet

Particulars	Mar. 31, 2011	Mar. 31, 2012	Common Size	
			2011	2012
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	9,00,000	7,50,000	45.45	39.37
(b) Reserves & Surplus	2,25,000	1,50,000	11.36	7.87
(2) Non-Current Liabilities				
Long Term Borrowings	3,00,000	4,20,000	15.15	22.05
(3) Current Liabilities				
Trade Payables	5,55,000	5,85,000	28.04	30.71
Total	19,80,000	19,05,000	100	100

Assets				
(1) Non-Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	11,55,000	12,45,000	58.33	65.35
(2) Current Assets				
(a) Inventories	8,25,000	6,60,000	41.67	34.65
Total	19,80,000	19,05,000	100	100

6. From the following balance sheets, prepare comparative and common size balance sheet of D Ltd.:

Particulars	Note No.	2010-11 `	2011-12 `
<u>Equity and Liabilities</u>			
(1) Shareholders Fund			
(a) Share Capital		25,00,000	25,00,000
(b) Reserves & Surplus		5,00,000	6,00,000
(2) Non-Current Liabilities			
Long Term Borrowings		15,00,000	15,00,000
(3) Current Liabilities			
Trade Payables		5,00,000	5,50,000
Total		50,00,000	51,50,000
<u>Assets</u>			
(1) Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		30,00,000	36,00,000
(b) Non-Current Investments		5,00,000	5,00,000
(2) Current Assets			
(a) Inventories		15,00,000	10,50,000
Total		50,00,000	51,50,000

Solution:
Comparative
Balance
Sheet

Particulars	Mar. 31, 2011	Mar. 31, 2012	Absolute Change	% Change
<u>Equity and Liabilities</u>				
(1) Shareholders Fund				
(a) Share Capital	25,00,000	25,00,000	0	0
(b) Reserves & Surplus	5,00,000	6,00,000	1,00,000	20
(2) Non-Current Liabilities				
Long Term Borrowings	15,00,000	15,00,000	0	0
(3) Current Liabilities				
Trade Payables	5,00,000	5,50,000	50,000	10
Total	50,00,000	51,50,000	1,50,000	3

Assets				
(1) Non-Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	30,00,000	36,00,000	6,00,000	20
(b) Non-Current	5,00,000	5,00,000	0	0
Investments				
(2) Current Assets	15,00,000	10,50,000	(4,50,000)	(3)
(a) Inventories	50,00,000	51,50,000	1,50,000	3
Total				



<i>Particulars</i>	<i>Mar. 31, 2011</i>	<i>Mar. 31, 2012</i>	Common Size	
			2011	2012
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	25,00,000	25,00,000	50	48.54
(b) Reserves & Surplus	5,00,000	6,00,000	10	11.65
(2) Non-Current Liabilities				
Long Term Borrowings	15,00,000	15,00,000	30	29.13
(3) Current Liabilities				
Trade Payables	5,00,000	5,50,000	10	10.68
Total	50,00,000	51,50,000	100	100

Assets				
(1) Non-Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	30,00,000	36,00,000	60	69.90
(b) Non-Current Investments	5,00,000	5,00,000	10	9.71
(2) Current Assets				
(a) Inventories	15,00,000	10,50,000	30	20.39
Total	50,00,000	51,50,000	100	100

7. From the following balance sheets, prepare a Comparative and Common Size Balance Sheet of Asha Ltd. :

Particulars	Note No.	2012 `	2011 `
I. Equity and Liabilities			
(1) Shareholders' funds			
Share Capital		7,50,000	6,00,000
(2) Current Liabilities			
Trade Payables		2,00,000	2,50,000
		9,50,000	8,50,000
Total			
II. Assets			
(1) Non-Current Assets			
Fixed Assets			
(i) Tangible Assets		4,00,000	5,00,000
(2) Current Assets			
a) Inventories		1,00,000	1,00,000
b) Trade receivables		3,50,000	2,00,000
c) Cash and Cash Equivalents		1,00,000	50,000
Total		9,50,000	8,50,000

Solution:

Comparative Balance Sheet

Particulars	2011 `	2012 `	Absolute Change	% Change
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	6,00,000	7,50,000	1,50,000	25
(2) Current Liabilities				
Trade Payables	2,50,000	2,00,000	(50,000)	(20)
Total	8,50,000	9,50,000	1,00,000	11.76

Assets				
(1) Non-Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	5,00,000	4,00,000	(1,00,000)	(20)
(2) Current Assets				
a) Inventories	1,00,000	1,00,000	0	0
b) Trade receivables	2,00,000	3,50,000	1,50,000	75
c) Cash and Cash	50,000	1,00,000	50,000	100
Equivalents	8,50,000	9,50,000	1,00,000	11.76
Total				

Common Size Balance Sheet

Particulars	Mar. 31, 2011	Mar. 31, 2012	Common Size	
			2011	2012
Equity and Liabilities				
(1) Shareholders Fund				
(a) Share Capital	6,00,000	7,50,000	70.59	78.95
(2) Current Liabilities				
Trade Payables	2,50,000	2,00,000	29.41	21.05
Total	8,50,000	9,50,000	100	100
Assets				
(1) Non-Current Assets				
(a) Fixed Assets				
(i) Tangible Assets	5,00,000	4,00,000	58.82	42.11
(2) Current Assets				
a) Inventories	1,00,000	1,00,000	11.76	10.53
b) Trade receivables	2,00,000	3,50,000	23.53	36.84
c) Cash and Cash	50,000	1,00,000	5.89	10.52
Equivalents	8,50,000	9,50,000	100	100
Total				