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| **SESSION** | **July-August 2024** |
| **PROGRAM** | **BACHELOR OF Commerce**  |
| **SEMESTER** | **III** |
| **course CODE & NAME** | **DCM2105 Financial statement interpretation**  |
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|  |  |

**Assignment Set – 1**

**1.a.Discuss the significance of financial statement analysis. Mention types of financial statements Analysis are there?**

**Ans 1a.**

**Significance of Financial Statement Analysis**

Financial statement analysis is a vital process for understanding a company’s financial health and performance. It enables stakeholders—investors, creditors, management, and regulators—to make well-informed decisions by interpreting key financial data. The analysis evaluates aspects like profitability, liquidity, solvency, and efficiency, aiding in strategic decision-making.

**1. Decision-Making and Strategy Development:** For investors, financial analysis reveals profitability and growth potential, while creditors assess the company’s creditworthiness.

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**b. Prepare Income Statement for Year ended 31st Dec 2023 from the below information as per schedule III of companies Act 2013.**

**Gross Revenue Rs 1,000,000**

**Purchase of Raw material Rs 5,60,000**

**Opening Raw material Rs 2,00,000**

**Closing of raw material Rs 60,000**

**Depreciation Rs 25,000**

**Selling expenses Rs 5,000**

**Retirement benefit expense Rs 50,000**

**Salary expense Rs 70,000**

**Office equipment (life less than 1 year) Rs 50,000**

**Interest expense Rs 7,000**

**Tax Expenses Rs 45000**

**Extra ordinary Expenses Rs 60,000**

**Ans 1b.**

**Income Statement for the Year Ended 31st December 2023**

(as per Schedule III of the Companies Act, 2013)

**Revenue**
Gross Revenue: ₹1,000,000

**Total Revenue**: ₹1,000,000

**Expenses**

1. **Cost of Materials Consumed**:
Opening Raw Material: ₹200,000
Add: Purchase of Raw Material: ₹560,000
Less: Closing Raw Material: ₹60,000
**Cost of Materials Consumed**: ₹700,000
2. **Employee Benefit Expenses**:
	* Salary Expense: ₹70,000

**2. From Income Statement for the Year Ended December 31,2023 (in Rs.). Determine Cash from operating activity.**

**Revenue Expenses**

**Sales Rs. 5,00,000 Cost of Goods Sold Rs. 2,00,000**

**Other Revenues Rs. 50,000 Operating Expenses Rs. 1,00,000**

**Interest Expense Rs. 10,000**

**Tax Expense Rs. 20,000**

**Net Income Rs. 2,20,000**

**Additional Information:**

**Depreciation Expense: Rs. 30,000**

**Changes in Working Capital:**

**Increase in Accounts Receivable: Rs. 10,000**

**Decrease in Inventory: (Rs. 5,000)**

**Increase in Accounts Payable: Rs. 8,000**

**Increase in Accrued Expenses: Rs. 3,000**

**Ans 2.**

### Cash Flow from Operating Activities for the Year Ended December 31, 2023

To determine the **Cash Flow from Operating Activities (CFO)**, we use the **Indirect Method**. This method starts with the net income and adjusts for non-cash expenses, changes in working capital, and other operating items.

#### Formula for Cash Flow from Operating Activities:

$$CFO=Net Income+Non-Cash Expenses+\left(Increase in Liabilities-Increase in Assets\right)$$

### Step-by-Step Calculation

#### 1. Start with Net Income

Net Income = ₹2,20,000

#### 2. Add Non-Cash Adjustments

**Depreciation Expense** = ₹30,000 (Non-cash expense added back).

$$AdjustedNetIncome=₹2,20,000+₹30,000=₹2,50,000$$

#### 3. Adjust for Changes in Working Capital

Working capital adjustments include changes in current assets and current liabilities:

**3 a Prepare a schedule for changes in the working capital from the Balance sheet data given below:**

|  |  |  |
| --- | --- | --- |
|  | **Dec 2023 (Rs.)** | **Dec 2024 (Rs.)** |
| **Capital & Liabilities:** |  |  |
| **Share Capital** | **6,00,000** | **7,50,000** |
| **Trade creditors** | **2,12,000** | **1,40,000** |
| **Profit & Loss A/c** | **28,000** | **62,000** |
|  | **8,40,000** | **9,52,000** |
| **Assets:** |  |  |
| **Machinery** | **140,000** | **2,00,000** |
| **Stock-in-trade** | **2,42,000** | **2,72,000** |
| **Debtors** | **3,62,000** | **3,40,000** |
|  |  |  |
| **Cash** | **96,000** | **1,40,000** |
| **Total** | **8,40,000** | **9,52,000** |

**b. Current ratio = 2.8:1**

**Acid-Test ratio = 1.5 :1**

**Working capital = Rs.162000**

**Find out:**

1. **Current assets**
2. **Current Liabilities**
3. **Liquid assets**

**Ans 3.**

### (a) Schedule of Changes in Working Capital

To prepare the schedule of changes in working capital, we calculate the differences in current assets and current liabilities between December 2023 and December 2024.

#### Current Assets and Liabilities:

| **Particulars** | **2023 (₹)** | **2024 (₹)** | **Change (₹)** |
| --- | --- | --- | --- |
| **Current Assets** |  |  |  |
| Stock-in-Trade | 2,42,000 | 2,72,000 | +30,000 |
| Debtors | 3,62,000 | 3,40,000 | -22,000 |
| Cash | 96,000 | 1,40,000 | +44,000 |
| **Total Current Assets** | 7,00,000 | 7,52,000 | +52,000 |
| **Current Liabilities** |  |  |  |
| Trade Creditors | 2,12,000 | 1,40,000 | -72,000 |
| **Total Current Liabilities** | 2,12,000 | 1,40,000 | -72,000 |

**Assignment Set – 2**

**4. (a) Perform a trend analysis for ABC co. over a five-year period (2018-2022) for sales, expenses, and net income to understand the relationships between these components.**

**Year Sales Expenses Net Income**

**2018 Rs. 800,000 Rs. 600,000 Rs. 200,000**

**2019 Rs. 850,000 Rs. 620,000 Rs. 230,000**

**2020 Rs. 780,000 Rs. 640,000 Rs. 140,000**

**2021 Rs. 920,000 Rs. 700,000 Rs. 220,000**

**2022 Rs. 950,000 Rs. 720,000 Rs. 230,000**

**(b)₹ 2,00,000 is the cost of revenue from operations, inventory turnover is 8 times, stock at the beginning is 1.5 times of the stock at the end. Calculate the value of opening and closing stock.**

**Ans 4.**

### (a) Trend Analysis for ABC Co. (2018-2022)

#### Step-by-Step Calculation

Trend analysis involves calculating the percentage change in sales, expenses, and net income over the years, with the base year (2018) set at 100%.

#### Formulas for Trend Analysis:

$$Trend Percentage=\left(\frac{Value in Current Year}{Value in Base Year}\right)×100$$

###

###  (b) Calculation of Opening and Closing Stock

#### Step-by-Step Calculation

1. **Formula for Inventory Turnover Ratio**:

$$Inventory Turnover Ratio=\frac{Cost of Revenue from Operations}{Average Inventory}$$

* Rearranging to find Average Inventory:

$$Average Inventory=\frac{Cost of Revenue from Operations}{Inventory Turnover Ratio}$$

* Substituting values:

$$Average Inventory=\frac{₹200,000}{8}=₹25,000$$

**5 (a) State different techniques of Earnings Management.**

**(b) Explain different methods used for Financial Forecasting.**

**Ans 5.**

### (a) Techniques of Earnings Management

Earnings management involves using accounting methods and judgments to influence reported financial results. While legal within certain limits, these practices can sometimes border on unethical behavior if they mislead stakeholders. Below are the key techniques used for earnings management:

#### 1. Income Smoothing

This involves reducing income fluctuations to present a stable profit trend. Companies

### (b) Methods Used for Financial Forecasting

Financial forecasting is the process of estimating a company's future financial performance based on historical data, market trends, and business strategies. Accurate forecasting is crucial for decision-making, resource allocation, and long-term planning. Below are the common methods used:

#### 1. Qualitative Methods

**6. From the following Balance sheet of a SGRCS ltd for the year 2023 and 2024. Prepare a comparative Balance sheet and comment on the financial position of the concern:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **2023** | **2024** | **Assets** | **2023** | **2024** |
| **Equity Share capital** | **6,00,000** | **8,00,000** | **Land & Buildings** | **3,70,000** | **2,70,000** |
| **Reserves & Surplus** | **3,30,000** | **2,22,000** | **Plant & machinery** | **4,00,000** | **6,00,000** |
| **Debentures** | **2,00,000** | **3,00,000** | **Furniture & Fixtures** | **20,000** | **25,000** |
| **Long-term loans on mortgage** | **1,50,000** | **2,00,000** | **Other fixed assets** | **25,000** | **30,000** |
| **Bills payable** | **50,000** | **45,000** | **Cash in hand and bank** | **20,000** | **80,000** |
| **Sundry creditors** | **1,00,000** | **1,20,000** | **Bills receivable** | **1,50,000** | **90,000** |
| **Other current Liabilities** | **5,000** | **10,000** | **Sundry Debtors** | **2,00,000** | **2,50,000** |
|  |  |  | **Stock** | **2,50,000** | **3,50,000** |
|  |  |  | **Prepaid Expenses** |  | **2,000** |
| **Total** | **14,35,000** | **16,97,000** | **Total** | **14,35,000** | **16,97,000** |

**Ans 6.**

### Comparative Balance Sheet of SGRCS Ltd. for the Year 2023 and 2024

#### Step 1: Calculate the Absolute Change

Absolute Change = 2024 Value - 2023 Value

#### Step 2: Calculate the Percentage Change

$$Percentage Change=\left(\frac{Absolute Change}{2023 Value}\right)×100$$