**Financial Statement Analysis**

**April 2025 Examination**

**Q1. ABC ltd. Is about to finalise their financial statements, For the year ended June, 30, 2024. The intended authorisation date of financial statements is September 15, 2024. Following are the events that occurred since June 30, 2024, explain the type of event and their treatment in financial statements: (10 Marks)**

|  |  |
| --- | --- |
| **Sr. No.** | **Events** |
| **1** | **On July 12, 2024, word came in that a foreign client had filed for liquidation in May of that year. There are currently no opportunities for this debt to be recovered.** |
| **2** | **The company offered 1,000 copies of Product A for just ` 15 each on July 15, 2024. The price per unit was ` 20. However, due to damage brought on by improper handling on June 25, 2024, this Product’s value has been reduced to its NRV of ` 17 per unit on June 30, 2011.** |
| **3** | **Due to damage from water spoilage on August 5, 2024 the company sold 1,000 pieces of Product B for just ` 12 each on August 15. The price per unit was `20. However, on June 30, 2011, this Product had been valued at its NRV of `15 per unit.** |
| **4** | **On June 27, 2024, an asset was acquired and put into service. However, on July 5, 2024, an invoice was received.** |
| **5** | **ABC Limited declared on July 7, 2024, that it would stop making Product C due to high losses, which accounted for 22% of total sales** |

**Ans 1.**

**Introduction**

Financial statements serve as crucial tools for evaluating an entity’s financial health, ensuring transparency, and aiding stakeholders in decision-making. However, financial statements must be adjusted for events that occur after the reporting period but before their authorization for issue. These events, known as "subsequent events," can significantly impact the financial position and performance of a company. IFRS and Ind AS classify such occurrences as adjusting or non-adjusting. Adjusting events show situations at the reporting date that need financial statement revisions. In contrast, non-adjusting events indicate situations after the reporting date and are only revealed in financial statements if substantial. ABC Ltd. is completing its financial

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**Q2. XYZ Ltd. prepares its financial statements annually. It assumes the business will continue indefinitely, records expenses when incurred, and ensures consistency in accounting practices over years. Explain the fundamental accounting assumptions applied in XYZ Ltd.'s financial reporting (10 Marks)**

**Ans 2.**

**Introduction**

Accounting is built on certain fundamental assumptions that ensure consistency, reliability, and comparability of financial statements. These assumptions guide businesses in preparing financial reports, allowing stakeholders to assess an entity’s performance and financial position accurately. In its financial reporting, XYZ Ltd. assumes the firm will continue forever, records expenditures when incurred rather than when paid, and maintains accounting consistency. Proceeding concern, accrual basis, and consistency are key to financial reporting under Indian Accounting Standards (Ind AS) and International Financial Reporting Standards (IFRS). An

**Q3. An investor is evaluating two companies: one with stable cash flows and another with significant growth potential. Discuss two main valuation techniques they could use and explain which technique suits each company's characteristics.**

**a. Economical Value Added (5 Marks)**

**Ans 3a.**

**Introduction**

Economic Value Added (EVA) is a financial performance metric that measures a company’s ability to generate value beyond the cost of capital. It is an essential tool for investors evaluating companies with stable cash flows, as it determines whether a business is creating real economic profit. By focusing on capital efficiency, EVA helps investors understand how effectively a company utilizes its invested funds to generate returns.

**Concept and Application**

**Concept of Economic Value Added (EVA)**

**b. Market Value Added (5 Marks)**

**Ans 3b.**

**Introduction**

Market Value Added (MVA) is a financial metric that assesses the value created by a company for its shareholders. It is particularly useful for evaluating high-growth companies, as it reflects investor expectations and measures how well a business is increasing its market capitalization relative to invested capital. MVA is widely used in industries such as technology, e-commerce, and biotech, where growth potential is a key driver of value.

**Concept and Application**

**Market Value Added (MVA)**