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| **SESSION** | **April 2023** |
| **PROGRAM** | **BACHELOR OF Commerce** |
| **SEMESTER** | **III** |
| **course CODE & NAME** | **DCM2105–Financialstatement interpretation** |
| **CREDITS** | **4** |
| **nUMBER OF ASSIGNMENTS & Marks** | **02**  **30 Marks each** |

**Q1a. “Analysis without interpretation is meaningless and interpretation without analysis is impossible”. Discuss in light ofthe above statement concept and the significance of financial statement analysis.**

**Ans 1a.**

Financial statement analysis is the process of examining and evaluating a company's financial statements for the purpose of making better economic decisions. These decisions can involve deciding whether to invest in the business, lend to it, or even work for it. Financial statement analysis may seem like a purely mathematical exercise with unambiguous outcomes, but the statement "Analysis without interpretation is meaningless, and interpretation without analysis

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**Q1b. Explain the Components of the Income statement as per the revised Schedule III of the Companies act 2013.**

**Ans 1b.**

The Companies Act 2013 requires all companies in India to prepare and present their financial statements in accordance with the schedule III of the act. The Income Statement or Statement of Profit and Loss, as per the revised Schedule III, consists of several components:

**Revenue:** This includes revenue from operations, which can be from the sale of goods or the

**Q2. Following is the financial statement of Garima Ltd. Prepare the cash flow statement.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Note No.** | **31st March 2022** | **31st March 2021** |
| **(₹)** | **(₹)** |
| **I) Equity and Liabilities** |  |  |  |
| 1. Shareholders’ Funds |  |  |  |
| a) Share capital | 1 | 4,40,000 | 2,80,000 |
| b) Reserve and surplus-Surplus | 2 | 40,000 | 28,000 |
| 2. Current Liabilities |  |  |  |
| a) Trade payables |  | 1,56,000 | 56,000 |
| c) Short-term provisions |  | 12,000 | 4,000 |
| (Provision for taxation) |  |  |  |
| **Total** |  | **6,48,000** | **3,68,000** |
| **II) Assets** |  |  |  |
| 1. Non-current assets |  |  |  |
| a) Fixed assets |  |  |  |
| i) Tangible |  | 3,64,000 | 2,00,000 |
| 2. Current assets |  |  |  |
| a) Inventories |  | 1,60,000 | 60,000 |
| b) Trade receivables |  | 80,000 | 20,000 |
| c) Cash and cash equivalents |  | 28,000 | 80,000 |
| d) Other current assets |  | 16,000 | 8,000 |
| **Total** |  | **6,48,000** | **3,68,000** |
|  |  |  |  |
| Notes to Accounts |  |  |  |
| **Particulars** |  | **31st March 2022** | **31st March 2021** |
|  | **(₹)** | **(₹)** |
| 1. Share capital |  |  |  |
| a) Equity share capital |  | 3,00,000 | 2,00,000 |
| b) Preference share capital |  | 1,40,000 | 80,000 |
|  |  | **4,40,000** | **2,80,000** |
| 2. Reserve and surplus |  |  |  |
| Surplus in statement of profit and loss at the beginning of the year |  | 28,000 | ----- |
| Add: Profit of the year |  | 16,000 | ----- |
| Less: Dividend |  | 4,000 | ----- |
| Profit at the end of the year |  | **40,000** | ----- |
|  |  |  |  |
| ***Additional Information*:** |  |  |  |
|  |  |  |  |
| **1. Interest paid on debenture ₹ 600** |  |  |  |
| **2. Dividend paid during the year ₹ 4,000** | |  |  |
| **3. Depreciation charged during the year ₹ 32,000** | | |  |

**Answer:**

To prepare a cash flow statement, we typically need to break it down into three sections: Operating Activities, Investing Activities, and Financing Activities. We can start by calculating net cash flow from each of these activities.

Cash Flow from Operating Activities:

* Start with the net profit for the year: ₹16,000

**Q3. Prepare a schedule for changes in the working capital from the Balance sheet data given below:**

|  |  |  |
| --- | --- | --- |
|  | **Dec 2020 (Rs.)** | **Dec 2021 (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** |

**Answer:**

A schedule of changes in working capital can be prepared by calculating the working capital for each year and then finding the change from the previous year.

Working capital is typically calculated as Current Assets minus Current Liabilities.

From the provided Balance Sheet, we can identify Current Assets as:

* Stock-in-trade
* Debtors

**Assignment Set – 2**

**4a. PQR Ltd. prepared and presented the financial statements for the financial year ending 31st March 2021. However, the company omitted ‘notes to accounts’ in its financial statements. You are required to comment on the validity of financial statements.**

**Ans 4a.**

The omission of 'notes to accounts' in financial statements can be considered as a significant omission and affects the overall validity of the financial statements.

Notes to accounts, or footnotes, are integral components of financial statements because they provide detailed explanations of the numbers presented in the primary statements (i.e., the

**4b. ₹ 4,00,000 is the cost of revenue from operations, inventory turnover is 5 times, stock at the beginning is 1.5 times of the stock at the end. Calculate the value of opening and closing stock.**

**Ans 4b.**

**Calculate the value of opening and closing stock using the provided information:**

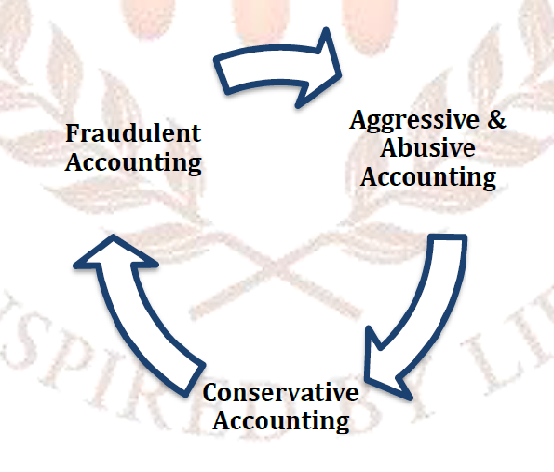
First, understand that the inventory turnover ratio is calculated as the Cost of Goods Sold (COGS) divided by Average Inventory during the period. Here, we have the turnover ratio and COGS, but we also know that opening inventory is 1.5 times closing inventory.

Given:

* COGS (Cost of revenue from operations) = ₹ 4,00,000

**Q5a. State different techniques of earnings management.**

**Ans 5a.**



**Techniques of Earning Management**

There are three types of techniques in earnings management they are:

• Aggressive & Abusive Accounting- Alludes to the quick increase in revenue recognition or sales. Abusive accounting uses the cookie jar, a huge bath, and other items to indicate that the year had a high

**Q6. From the following Balance sheet of a concern for the year 2021 and 2022. Prepare a comparative Balance sheet and comment on the financial position of the concern:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **2021** | **2022** | **Assets** | **2021** | **2022** |
| **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.**

Here's the comparative balance sheet for the years 2021 and 2022:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2021** | **2022** | **Increase/Decrease** | **Percentage change** |
| **LIABILITIES** |  |  |  |  |
| Equity Share capital | 600,000 | 800,000 | 200,000 | 33.33% |
| Reserves & Surplus | 330,000 | 222,000 | -108,000 | -32.73% |
| Debentures | 200,000 | 300,000 | 100,000 | 50% |
| Long-term loans on mortgage | 150,000 | 200,000 | 50,000 | 33.33% |
| Bills payable | 50,000 | 45,000 | -5,000 | -10% |
| Sundry creditors | 100,000 | 120,000 | 20,000 | 20% |
| Other current Liabilities | 5,000 | 10,000 | 5,000 | 100% |
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