**SESSION SEPT 2023**

**PROGRAM BACHELOR OF COMMERCE**

**SEMESTER III**

**COURSE CODE & NAME DCM2105– FINANCIAL STATEMENT INTERPRETATION**

**CREDITS 4**

**Assignment Set – 1**

**Questions 1**

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

**ANS:** The significance of financial statement analysis can be understood in various contexts: Performance Evaluation: Financial statement analysis helps assess how well a company has performed over a specific period. It involves examining the income statement to analyse revenue, expenses, and profitability ratios, allowing stakeholders to gauge the company's operational

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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:-**To prepare the Income Statement (Profit and Loss Account) for the year ended December 31, 2023, based on the provided information and in accordance with Schedule III of the Companies Act 2013, we can categorize the expenses and revenues into appropriate sections.

**The format typically**

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

**Revenue Expenses**

**Sales Rs. 500,000 Cost of Goods Sold Rs. 200,000**

**Other Revenues Rs. 50,000**

**Operating Expenses Rs. 100,000**

**Interest Expense Rs. 10,000**

**Tax Expense Rs. 20,000**

**Net Income Rs. 220,000**

**Additional Information:-**

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

**II. 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: -**To determine the cash from operating activities, we start with the net income and adjust for non-cash items and changes in working capital. The indirect method is commonly used for calculating cash from operating activities.

**Here's the calculation:**

**Net Income:**

**Net Income:** Rs. 220,000

**3. A. 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 Total | 96,000 | 1,40,000 |
|  | **8,40,000** | **9,52,000** |

**ANS:**

To prepare a schedule for changes in working capital, we need to analyze the changes in current assets and current liabilities between two periods (December 2020 and December 2021). The working capital is the difference between current assets and current liabilities.

**Here's the schedule for**

**Assignment Set – 2**

**Questions**

**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**  **2018** | **Sales**  **Rs. 800,000** | **Expenses**  **Rs. 600,000** | **Net Income**  **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) ₹ 8,00,000 is the cost of revenue from operations, inventory turnover is 10 times, stock at the beginning is 2.5 times of the stock at the end. Calculate the value of opening and closing stock.**

Ans: To calculate the values of opening and closing stock, we can use the inventory turnover ratio and the cost of revenue from operations. The inventory turnover ratio is defined as the cost of goods sold

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

**Ans:**

**Here are several techniques of earnings management:**

**Income Smoothing:**

**Description:** Income smoothing involves the manipulation of reported earnings to create a more stable and consistent pattern. This technique reduces the volatility of earnings over multiple periods, making the company's financial performance appear more predictable.

**Method:** Managers may

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

**Ans: Here are some common methods used for financial forecasting:**

**Historical or Trend Analysis:**

**Description:** This method involves analyzing historical financial data to identify patterns and trends. By extrapolating past performance, organizations can make assumptions about future trends.

**Pros:** Simple and easy to implement, especially when historical data is readily available.

**Cons:** Assumes that historical trends will continue, which may not account for changes in market conditions.

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **2022** | **2023** | **Assets** | **2022** | **2023** |
| **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** |

**Sol: -Let's prepare a comparative balance sheet for SGRCS Ltd for the years 2022 and 2023:**

**---------------------------------------------------------------------**

**SGRCS Ltd**

**Comparative Balance Sheet**

**As of December 31, 2022 and 2023**

**---------------------------------------------------------------------**

**| 2022 (Rs.) | 2023 (Rs.)**

**-----------------------------|--------------------|--------------------**

**Liabilities | |**