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| --- | --- |
| **SESSION** | **march 2025** |
| **PROGRAM** | **BACHELOR OF Commerce (B.Com)** |
| **SEMESTER** | **III** |
| **course CODE & NAME** | **DCM2105 Financial statement interpretation** |
|  |  |
|  |  |

**Assignment Set – 1**

**Q1. a. Discuss the significance of financial statement analysis. Mention types of financial statements Analysis are there?**

**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 1.**

**Significance of Financial Statement Analysis**

Financial statement analysis is a systematic process of examining a company's financial data to evaluate its performance, profitability, and financial health. The analysis helps various stakeholders such as investors, creditors, management, and regulators make informed decisions.

**Importance:**

1. **Assesses Profitability** – Understands how efficiently a company generates profits.
2. **Measures Financial Stability** – Evaluates solvency and liquidity positions.
3. **Supports Decision-Making** – Assists management in planning and budgeting.
4. **Investment Evaluation** – Helps investors in analyzing returns and risk.
5. **Creditworthiness Assessment** – Enables lenders to judge repayment ability.

**Types of Financial Statement Analysis**

1. **Horizontal Analysis** – Compares financial data over multiple periods to observe trends.

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**Q2. 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.**

**Determine Cash from Operating Activities (Indirect Method)**

**Step 1: Start with Net Income**

**Step 2: Add Non-Cash Expenses**

* **Depreciation Expense** = ₹30,000

Q**3a. 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** |

**3. (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**

Working Capital = Current Assets – Current Liabilities We consider only current assets and current liabilities for this schedule.

Step 1: Identify Current Assets & Current Liabilities

**Current Assets:**

* Stock-in-trade
* Debtors
* Cash

**Current Liabilities:**

* Trade Creditors

**Assignment Set – 2**

**Q4. 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**

**From the following particulars, you are required to calculate.**

**Earnings per share**

**Price - Earnings Ratio.**

**Return on capital employed.**

**Particulars Amount Particulars Amount**

**Equity shares capital (Rs 10) ₹ 2,00,000 Reserve & surplus ₹ 50,000**

**Building ₹ 2,50,000 Plant and Machinery ₹ 1,50,000**

**10% Debenture ₹ 1,50,000 12% loan ₹ 50,000**

**Inventory ₹ 50,000 Cash in hand ₹ 30,000**

**Debtors ₹ 40,000 Creditors ₹ 60,000**

**B/R ₹ 10,000 B/P ₹ 40,000**

**Advance Tax ₹ 4,000 Bank Overdraft ₹ 4,000**

**Other Information:**

**Net profit before Interest and Tax: Rs 2,50,000**

**Tax Rate = 40%**

**The current market price of Share is Rs 50**

**Ans 4.**

**a. Trend Analysis (2018–2022)**

In trend analysis, we express each year’s figure as a **percentage of the base year** (2018 = 100%).

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | Sales (₹) | Sales Index | Expenses (₹) | Expenses Index | Net Income (₹) | Net Income Index |
| 2018 | 800,000 | 100.0 | 600,000 | 100.0 | 200,000 | 100.0 |
| 2019 | 850,000 | 106.25 | 620,000 | 103.33 | 230,000 | 115.0 |
| 2020 | 780,000 | 97.50 | 640,000 | 106.67 | 140,000 | 70.0 |
| 2021 | 920,000 | 115.0 | 700,000 | 116.67 | 220,000 | 110.0 |
| 2022 | 950,000 | 118.75 | 720,000 | 120.0 | 230,000 | 115.0 |

**Interpretation:**

**Q5. a. Propose a framework to detect and minimize Earnings Management in organizations.**

**b. Compare and contrast qualitative and quantitative methods of Financial Forecasting.**

**Ans 5.**

**a. Framework to Detect and Minimize Earnings Management in Organizations**

**Understanding Earnings Management**

Earnings management refers to the deliberate manipulation of financial statements by management to achieve desired financial results, often to meet targets or influence stock prices. While it may not always involve outright fraud, it distorts the true financial health of an organization and undermines investor trust and financial transparency.

**Detecting Earnings Management**

To detect earnings management, a structured framework must be established that combines

**Q6. From the following Balance sheet of a SGRCS ltd for the year 2024 and 2025. Prepare a comparative Balance sheet and comment on the financial position of the concern:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **2024** | **2025** | **Assets** | **2024** | **2025** |
| **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 2024 and 2025** (All amounts in ₹)

**Liabilities Side**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Particulars | 2024 | 2025 | Increase / (Decrease) | % Change |
| Equity Share Capital | 6,00,000 | 8,00,000 | 2,00,000 | 33.33% |
| Reserves & Surplus | 3,30,000 | 2,22,000 | (1,08,000) | (32.73%) |
| Debentures | 2,00,000 | 3,00,000 | 1,00,000 | 50.00% |
| Long-term Loans | 1,50,000 | 2,00,000 | 50,000 | 33.33% |
| Bills Payable | 50,000 | 45,000 | (5,000) | (10.00%) |
| Sundry Creditors | 1,00,000 | 1,20,000 | 20,000 | 20.00% |
| Other Current Liabilities | 5,000 | 10,000 | 5,000 | 100.00% |