SmartKalike

CBSE Class 12 · Accountancy

Analysis of Financial Statements

10 most probable questions for Boards 2027

Q1. 1 mark · Multiple choice

Financial analysis primarily identifies a firm's financial strengths and weaknesses by establishing relationships between items in which statements?
(A) Cash Flow Statement and annual report
(B) Balance Sheet and Statement of Profit and Loss
(C) Directors' Report and auditors' report
(D) Statement of Changes in Equity and Cash Flow Statement

Answer

(B) Balance Sheet and Statement of Profit and Loss — financial analysis identifies financial strengths and weaknesses by establishing relationships between items in these statements.

Q2. 2 marks · Short answer

What information do comparative financial statements present for two periods, and how can this help identify changes in performance?

Answer

Comparative statements present current- and previous-year figures, together with changes in absolute and relative terms. They show account balances on different dates and summaries of operational activities across periods, revealing changes and performance trends.

Q3. 3 marks · Medium answer

When preparing a comparative statement, how is the absolute increase or decrease for an item found? State how the resulting change should be indicated.

Answer

1. List the absolute figures in rupees for the item at both dates, entering the first-year and second-year amounts in their respective columns.
2. Find the change by subtracting the first-year absolute figure from the second-year absolute figure (second-year − first-year). Record the result in the absolute-change column, marking an increase with (+) and a decrease with (–).

Q4. 4 marks · Long answer

List the commonly used tools of financial analysis and briefly state the purpose of any two of them.

Answer

Financial analysis uses systematic tools to examine financial statements and assess a firm's performance and position.
1. The commonly used tools are comparative statements, common size statement, trend analysis,

ratio analysis, and cash flow analysis.
2. A comparative statement shows changes in all items of financial statements in absolute and percentage terms over a period of time for a firm or between two firms.
3. A common size statement expresses each item as a percentage of a common base, such as revenue from operations for the Statement of Profit and Loss and total assets for the balance sheet.
Together, these tools help present and analyse financial information in a structured manner.

Q5. 5 marks · Long answer

Distinguish between analysis and interpretation of financial statements. Explain why each is ineffective or difficult without the other.

Answer

1. Meaning — Analysis means simplification of financial data by methodical classification of information given in financial statements; interpretation means explaining the meaning and significance of that data.
2. Purpose — Analysis organises financial facts and figures into a simpler, classified form; interpretation explains what the classified information signifies about the firm's financial performance and position.
3. Dependence — Analysis is useless without interpretation because classification alone does not explain the meaning or significance of financial data; interpretation without analysis is difficult or even impossible because the data has not been methodically simplified.
4. Relationship — Analysis and interpretation are complementary processes: analysis provides the organised information required for interpretation, while interpretation makes the results of analysis meaningful for decisions.

Q6. 9 marks · Very long answer

Explain how common-size statements express items in the Statement of Profit and Loss and the balance sheet as percentages of a common base. Identify the appropriate base for each statement, and explain how wages and depreciation are classified when preparing a common-size income statement.

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/accountancy/analysis-of-financial-statements

Q7. 1 mark · Multiple choice

Why may a financial analysis technique frequently used by one analyst not serve another analyst's purpose?
(A) Analysts use different accounting periods.
(B) Analysts have different interests and purposes.
(C) Financial statements contain no comparable information.
(D) Only management is permitted to analyse financial statements.

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/accountancy/analysis-of-financial-statements

Q8. 2 marks · Short answer

In a comparative statement, which year’s figure is used as the base for calculating percentage change?

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/accountancy/analysis-of-financial-statements

Q9. 3 marks · Medium answer

Besides showing changes between periods, what can the figures in comparative statements reveal about account balances and operating activities?

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Q10. 4 marks · Long answer

Explain what a common-size statement shows. State the common base used for the Statement of Profit and Loss and for the balance sheet, and describe how expressing items as percentages helps comparison.

Full answer on SmartKalike: https://smartkalike.com/cbse/class-12/accountancy/analysis-of-financial-statements

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