



[Frequently Asked Questions]

Financial Analysis

Subject:	Business Economics
Course:	B. A. (Hons.), 1st Semester, Undergraduate
Paper No. & Title:	Paper – 103 Fundamentals of Business and Accounting
Unit No. & Title:	Unit – 4 Introduction to Corporate Accounts
Lecture No. & Title:	Lecture – 2 Financial Analysis

Frequently Asked Questions

Q1. What is included in Financial Statements?

A1. Financial statements include statement of profit and loss, Balance Sheet, Cash Flow statement, Statement of change in equity and Notes to the accounts.

Q2. What is Financial Analysis?

A2. Financial analysis is the analysis of financial statements with the help of various tools for financial analysis to assess the business or project from the view point of viability, stability, profitability, liquidity and solvency according to some definite plan.

Q3. What are various tools for analysis of Financial Statement?

A3. Tools for analysis of Financial Statements are

1. Comparative Statements
2. Common Size Statements
3. Trend Analysis
4. Ratio Analysis
5. Cash Flow Analysis

Q4. What is Horizontal Analysis?

A4. Analysis of financial statements by preparing Comparative Financial Statement is called as Horizontal Analysis

Q5. What is Vertical Analysis?

A5. Analysis of financial statements by preparing Common Size Financial Statement is called as Horizontal Analysis

Q6. Is there any principles and statutory guidelines for financial analysis?

A6. As it is analysis of financial performance and financial position of an enterprise and it is done and used by any stake holder of the business it is voluntary and hence there are no principles and statutory guidelines for financial analysis like financial accounting.

Q7. What is Trend Analysis?

A7. Trend analysis is a method of financial analysis which allows to predict what can happen in the business in future on the basis of past trend. Trend analysis is based on historical data about financial performance of an individual item or related items of financial statement. Change in percentage or absolute figures is calculated for a considerable long period of past which helps to predict future performance.

Q8. What is Ratio and Ratio Analysis?

A8. A ratio expresses relationship between two amounts taken from financial statements in meaningful manner. An analysis of business from the viewpoints of liquidity, solvency, profitability and activity with the help of various ratios is known as 'ratio analysis'.

Q9. What is role of ratio analysis in financial analysis?

A9. Ratio analysis helps to analyze the business from the view point of short term solvency or liquidity, long term solvency, operational efficiency and profitability of the business. It is helpful to owner of the business, management, current and

potential investors, employees etc. stake holders in decision making

Q10. By which ratios solvency or liquidity, long term solvency, operational efficiency and profitability of the business can be analysed?

A10. To measure short term solvency or liquidity, Current ratio and Liquid ratio is calculates

To measure Long Term Solvency, Debt-Equity Ratio, Total Assets to Debt ratio, Proprietary ratio and Interest Coverage ratio are calculated

To measure operational efficiency, Inventory Turnover ratio, Trade Receivable Turnover ratio, Trade Payable Turnover ratio, Total Assets Turnover ratio and Working capital Turnover ratio are calculated.

To measure Profitability, Gross Profit ratio, Net profit ratio, Operating ratio, Operating Profit ratio, Return on Capital employed ratio are calculated.