CHAPTER-2 - Financial Statements Analysis

Q1
Solution:
Large and complete information in economic terms and detailed information regarding liquidity, solvency and profitability of the company are ascertained using financial statements. Comparison of various groups are done with each other. These groups are formed by classifying the economic data provided.

Q2
Solution:
Five objectives of financial analysis are as follows:

1. To calculate the earning capacity or profitability
2. To ascertain the solvency
3. To determine business trends
4. To provide useful information and data to the management and stakeholders
5. To measure the financial strength of the company

Q3
Solution:
Five importance of financial analysis are as follows:

- Significance for employees
- Significance for management
- Significance for investors
- Significance for government
- Significance for economic researchers

Q4
Solution:
Uses of analyzing the financial statements are:

- Aids in making sound investment decisions
- Serves as the basis to make credit decisions
- Helps in forecasting future performance based on patterns in financial statement.
- Helps government agencies in analyzing the taxes owed by the firm.
- Helps to identify the revenue generation of different products, for future decisions

Q5
Solution:
Analysis of financial statements ignore qualitative data like – the quality of employees, public image, efficiency of management etc. because accounting processes only consider data that have both an economic and monetary value. Therefore, such qualitative data are ignored. However, such qualitative data is contains vital information and are important to understand and forecast the actual and true financial position of the company and plays a major role in taking crucial decisions.