

Financial Statement Analysis Using Comparative Statements



Unit : 3
Course Code: CMRC4201
Course Title: MANAGEMENT ACCOUNTING
Programme : M.Com.

Auneesh Kumar

Assistant Professor of Commerce, Mahatma Gandhi Central University, Motihari

Comparative Financial Statements

- The comparative statements are the statements of the financial position and performance of two or more periods represented in comparative form in adjacent columns in a single report.
- In comparative statement we can compare each elements of financial statement very easily and find increase/decrease in the elements in absolute terms and in terms of percentage.

Types of Comparative Statements

- Comparative Balance Sheets, and
- Comparative Income Statements

Comparative Balance Sheets

- A comparative statement of Balance Sheet represent each element of the items under Equity, Liabilities and Assets of balance sheet of different periods of time side by side in columns. We can easily find out the increase or decrease in the value of each element of balance sheet in absolute figure as well as in percentage. There is no any prescribed standard format of comparative Balance sheet.
- Users of Financial statements can develop a trend line analysis with the help of comparative balance sheet.

Format of Comparative Balance Sheet

| Particulars | Previous year | Current year | Increase/ decrease (in absolute term) | % change (base previous year) |
|---------------------------------------|---------------|--------------|---------------------------------------|-------------------------------|
| Equity And Liabilities | | | | |
| 1. Shareholders' Fund | | | | |
| (a) Share Capital | XXX | XXX | XXX | XX |
| (b) Reserves and Surplus | XXX | XXX | XXX | XX |
| Total Shareholders' Fund | XXX | XXX | XXX | XX |
| 2. Non -Current Liabilities | | | | |
| (a) Long Term Borrowings | XXX | XXX | XXX | XX |
| (b) Other long-term liabilities | XXX | XXXX | XXX | XX |
| (c) Long-term provisions | XXX | XXX | XXX | XX |
| Total Non -Current Liabilities | XXX | XXX | XXX | XX |
| 3. Current Liabilities | | | | |
| (a) Short Term borrowings | XXX | XXX | XXX | XX |
| (b) Trade payables | XXX | XXX | XXX | XX |
| (c) Other current liabilities | XXX | XXX | XXX | XX |
| (d) Short term provisions | XXX | XXX | XXX | XX |
| Total Current liabilities | XXX | XXX | XXX | XX |
| Total Liabilities | XXX | XXX | XXX | XX |
| Total Equity and Liabilities | XXX | XXX | XXX | XX |

Format of Comparative Balance Sheet

| Particulars | Previous year | Current year | Increase/ decrease (in absolute term) | % change (base previous year) |
|-----------------------------------|---------------|--------------|---------------------------------------|-------------------------------|
| Assets | | | | |
| A. Non-Current Assets | | | | |
| (a) Fixed Assets | | | | |
| (1) Tangible Assets | XXX | XXX | XXX | XX |
| (2) Capital work-in-progress | XXX | XXX | XXX | XX |
| (3) Intangible Assets | XXX | XXX | XXX | XX |
| Total Fixed Assets | XXX | XXX | XXX | XX |
| (b) Non-current Investments | XXX | XXXX | XXX | XX |
| (c) Long term loans and advances | XXX | XXX | XXX | XX |
| (d) Other non-current assets | XXX | XXX | XXX | XX |
| Total Non-Current Assets | XXX | XXX | XXX | XX |
| B. Current Assets | | | | |
| (a) Current investment | XXX | XXX | XXX | XX |
| (b) Inventories | XXX | XXX | XXX | XX |
| (c) Trade Receivables | XXX | XXX | XXX | XX |
| (d) Cash and Bank balances | XXX | XXX | XXX | XX |
| (e) Short –term loan and advances | XXX | XXX | XXX | XX |
| (f) Other current assets | XXX | XXX | XXX | XX |
| Total Current Assets | XXX | XXX | XXX | XX |
| Total Assets | XXX | XXX | XXX | XX |

Comparative Balance Sheet of ABC Ltd. as on 31-03-2019 & 31-03-2020

| Particulars | 2019 <u>Rs.</u> | 2020 <u>Rs.</u> | Absolute change | % Change |
|--|-----------------|-----------------|-----------------|--------------|
| Equity and Liabilities | | | | |
| 1. Shareholders' Fund | | | | |
| (a) Share Capital | 50,000 | 80,000 | 30,000 | 60 |
| (b) Reserves and Surplus | 20,000 | 35,000 | 15,000 | 75 |
| Total Shareholders' Fund | 70,000 | 1,20,000 | 40,000 | 57.14 |
| 2. Total Non -Current Liabilities | 60,000 | 45,000 | (15,000) | (25) |
| 3. Total Current Liabilities | 25,000 | 20,000 | (5,000) | 20 |
| Total Liabilities(2+3) | 85,000 | 65,000 | (20,000) | 23.53 |
| Total Equity and Liabilities | 1,55,000 | 1,85,000 | 30,000 | 19.35 |
| Assets | | | | |
| A. Non-Current Assets | | | | |
| (a) Total Fixed Assets | 40,000 | 50,000 | 10,000 | 25 |
| (b) Non-current Investments | 35,000 | 20,000 | (15,000) | 42.86 |
| (c) Long term loans and advances | 40,000 | 55,000 | 15,000 | 37.5 |
| (d) Other non-current assets | 20,000 | 30,000 | 10,000 | 50 |
| Total Non-Current Assets(a+b+c+d) | 1,35,000 | 1,55,000 | 20,000 | 14.81 |
| Total Current Assets | 20,000 | 30,000 | 10,000 | 50 |
| Total Assets | 1,55,000 | 1,85,000 | 30,000 | 19.35 |

Comparative Income Statement

- The comparative Income statement represents the changes in each element of income statement (Profit & Loss Account) like revenue, expenses, cost of goods sold, etc. of different periods in a single report shown in side by side columns.
- The statement shows the changes (increase or decrease) in different elements of income statement like sales, cost of goods sold, gross profit, various expenses, net profit etc.

Format of Comparative Income Statement

| Particulars | Previous Year <u>Rs.</u> | Current Year <u>Rs.</u> | Absolute Change | % Change |
|-----------------------------|-----------------------------|----------------------------|-----------------|-----------|
| Revenue | XXX | XXX | XXX | XX |
| Cost of Goods Sold | XXX | XXX | XXX | XX |
| Gross Profit | XXX | XXX | XXX | XX |
| Expenses | | | | |
| Office Expenses | XXX | XXX | XXX | XX |
| Depreciation & Amortization | XXX | XXX | XXX | XX |
| Interest | XXX | XXX | XXX | XX |
| Advertising | XXX | XXX | XXX | XX |
| Total Expenses | XXX | XXX | XXX | XX |
| Profit Before Tax | XXX | XXX | XXX | XX |
| Taxes | XXX | XXX | XXX | XX |
| Net profit | XXX | XXX | XXX | XX |

Comparative Income Statement for the years 2019 & 2020

| Particulars | 2019 (Rs.) | 2020 (Rs.) | Absolute Change | % Change |
|-----------------------------|-----------------|-----------------|--------------------|--------------|
| Revenue | 8,00,000 | 12,00,000 | 4,00,000 | 50 |
| Cost of Goods Sold | 6,00,000 | 9,00,000 | 2,00,000 | 33.33 |
| Gross Profit | 2,00,000 | 3,00,000 | 1,00,000 | 50 |
| Expenses | | | | |
| Office Expenses | 5,000 | 5,500 | 500 | 10 |
| Depreciation & Amortization | 2,500 | 2,000 | (500) | (20) |
| Interest | 1,000 | 2,200 | 1200 | 120 |
| Advertising | 3,000 | 4,500 | 1,500 | 50 |
| Total Expenses | 11,500 | 14,200 | 2,700 | 23.48 |
| Profit Before Tax | 1,88,500 | 2,85,800 | 97300 | 51.62 |
| Taxes | 47,125 | 71,450 | 24,325 | 51.62 |
| Net profit | 1,41,375 | 2,14,350 | 72,975 | 51.62 |

Advantages of Comparative Statements

- It is helpful in comparing inter-firm performance and intra-firm performance.
- It can be used to develop a trend analysis.
- It helps to find out the weak and strong points in different elements like operating efficiency , financial situation, etc.
- It is very good tool for financial statement analysis.

Disadvantages of Comparative Statements

- If accounting principles adopted or method of accounting is changed and are different for different period (e.g., different method of depreciation for different period) then it does not provide a reliable or useful inter-period comparison or inter-firm comparison of performance or financial position.
- The increase and decrease in absolute terms in elements of financial statement for firms of very different size may not lead to useful comparative statements. For firms of very different sizes the changes should be obtained in percentage terms for interfirm comparison.



आ नो भद्राः क्रतवो यन्तु विश्वतः ।
Let noble thoughts come to us from every side.