Chapter 2 Financial Statements Analysis

Question 1

What is the meaning of Financial Analysis?

Answer:

Financial statements give a mass of complex information in the absolute monetary terms and reveal a bit about the solvency, liquidity and profitability of the enterprise. The data that is provided is classified into groups and a comparison of various groups is made with one another.

Question 2

Mention 5 objectives of financial analysis.

Answer:

5 objectives of financial analysis are mentioned below:

- To measure the earning capacity or profitability
- To measure the solvency
- To identify the trend of the business
- To furnish useful data to the management
- To measure the financial strength

Question 3

Mention 5 importance of financial analysis.

Answer:

5 importance of financial analysis are mentioned below:

- Significance for creditors
- Significance for government
- Significance for employees
- Significance for investors
- Significance for researchers

Question 4

Mention any 2 uses of analysing the financial statements.

Answer:

2 uses of analysing the financial statements are mentioned below:

- Helpful in making investment decisions
- Helpful in making credit decisions

Question 5

Explain how financial statement analysis ignores qualitative elements.

Answer:

The qualitative elements like – the quality of labour force, public relations, quality of management etc., ignored while carrying out the analysis of financial statements.