**Financial Statement Analysis**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for April 2025 Examination**

**Q1. ABC ltd. Is about to finalise their financial statements, For the year ended June, 30, 2024. The intended authorisation date of financial statements is September 15, 2024. Following are the events that occurred since June 30, 2024, explain the type of event and their treatment in financial statements:**

|  |  |
| --- | --- |
| **Sr. No.** | **Events** |
| **1** | **On July 12, 2024, word came in that a foreign client had filed for liquidation in May of that year. There are currently no opportunities for this debt to be recovered.** |
| **2** | **The company offered 1,000 copies of Product A for just ` 15 each on July 15, 2024. The price per unit was ` 20. However, due to damage brought on by improper handling on June 25, 2024, this Product’s value has been reduced to its NRV of ` 17 per unit on June 30, 2011.** |
| **3** | **Due to damage from water spoilage on August 5, 2024 the company sold 1,000 pieces of Product B for just ` 12 each on August 15. The price per unit was `20. However, on June 30, 2011, this Product had been valued at its NRV of `15 per unit.** |
| **4** | **On June 27, 2024, an asset was acquired and put into service. However, on July 5, 2024, an invoice was received.** |
| **5** | **ABC Limited declared on July 7, 2024, that it would stop making Product C due to high losses, which accounted for 22% of total sales** |

**Answer:**

**Introduction:**

Events occurring after the reporting period can significantly impact the financial statements of a company. As per IAS 10 (Events After the Reporting Period), such events are classified into adjusting and non-adjusting events. Adjusting events provide additional evidence of conditions that existed at the reporting date, requiring adjustments in financial statements. Non-adjusting events relate to conditions arising after the reporting date and are disclosed if material.

ABC Ltd. is finalizing its financial statements for the year ended June 30, 2024, with an intended authorization date of September 15, 2024. The company must analyze post-balance sheet events to determine whether adjustments or disclosures are needed. The following events will be assessed based on their nature and impact on financial reporting.

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**Q2. XYZ Ltd. prepares its financial statements annually. It assumes the business will continue indefinitely, records expenses when incurred, and ensures consistency in accounting practices over years. Explain the fundamental accounting assumptions applied in XYZ Ltd.'s financial reporting.**

**Answer:**

**Introduction:**

Accounting assumptions form the foundation of financial reporting, ensuring consistency, reliability, and comparability of financial statements. The Generally Accepted Accounting Principles (GAAP) and Accounting Standards are based on three fundamental accounting assumptions: Going Concern, Accrual, and Consistency.

XYZ Ltd. follows these key assumptions while preparing its annual financial statements. It assumes business continuity (Going Concern), records expenses when incurred (Accrual Basis), and maintains consistent accounting practices (Consistency Principle) over the years. These assumptions help ensure that financial statements provide a true and fair view of the company's financial position and performance. If these assumptions are not followed, a disclosure is required in the financial statements. The following explanation explores how each assumption is applied in XYZ Ltd.'s financial reporting.

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**Q3. An investor is evaluating two companies: one with stable cash flows and another with significant growth potential. Discuss two main valuation techniques they could use and explain which technique suits each company's characteristics.**

**a. Economical Value Added**

**Answer:**

**Introduction:**

When evaluating companies, investors rely on valuation techniques to determine their intrinsic worth. Two primary methods include the Discounted Cash Flow (DCF) Method and the Price-to-Earnings (P/E) Ratio. The DCF method suits companies with stable cash flows, as it estimates value based on future cash flows discounted to present value. In contrast, the P/E ratio is useful for high-growth firms, comparing their stock price to earnings. Additionally, Economic Value Added (EVA) measures a company’s financial performance by assessing its ability to generate returns above capital costs, providing deeper insights into value creation.

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**b. Market Value Added**

**Answer:**

**Introduction:**

Investors use valuation techniques to assess a company's financial health and growth potential. Two key methods include the Discounted Cash Flow (DCF) Method and the Price-to-Earnings (P/E) Ratio. The DCF method is ideal for companies with stable cash flows, as it calculates present value based on projected cash flows. The P/E ratio, on the other hand, is effective for high-growth firms, comparing stock price to earnings. Additionally, Market Value Added (MVA) measures a company’s ability to create shareholder wealth by evaluating the difference between its market value and invested capital.

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