Chapter 11
Comparative Statement
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COMPARATIVE STATEMENTS

Meaning
Comparative Statements or Comparative Financial Statements mean comparative study of items or components of financial statements (Balance Sheet and Statement of Profit and Loss) for two or more years or with that of other enterprises. Comparative Statement is a tool of financial analysis that shows change in each item or component of financial statement in absolute amount and in percentage, taking the amounts for the previous accounting period as the base.
Comparative Statement when prepared from the enterprise’s financial statements of two or more years, is known as **Intra-firm Comparison**.

Comparative Statement when prepared for comparing the enterprise’s financial statements with that of another enterprise, is known as **Inter-firm Comparison**.

**Significance or Purposes or Objectives of Comparative Statements**

(i) **Data Presentation becomes Simple and Comparable**: Comparative Statement or Comparative Financial Statement is a statement having data for two or more years in a tabular form. Thus, it is a simple presentation, understandable and also comparable. It helps in drawing conclusions easily.

(ii) **Indicates Trend**: Comparative Statement or Comparative Financial Statement gives information about the changes affecting financial position and performance of the enterprise. It is an indicator of trend and thus, helps in forecasting.

(iii) **Indicates Strengths and Weaknesses**: Comparative Statement or Comparative Financial Statement indicates strengths and weaknesses of the enterprise with respect to liquidity, profitability and solvency.

(iv) **Comparison with other Firms and Industry Performance (Inter-firm Comparison)**: Comparative Statement helps in comparison of the enterprise’s performance with that of other enterprises or with that of industry.

(v) **Forecasting and Planning**: Analysing the changes in financial data of the previous years helps the management in forecasting and planning.

(vi) **Key Financial Statistics**: Comparative Statement or Comparative Financial Statement is a guide to understand the movements of key financial statistics.

**Limitations of Comparative Statements**

(i) **Historical Records**: It is an analysis of historical records, *i.e.*, analysis of past financial statements. It, at the most, indicates the trend of the happenings in the past. It is not reflective of future, which is more relevant.

(ii) **Affected by Personal Judgment**: Financial statements are prepared on the basis of accounting concepts and conventions along with estimates. Examples being depreciation, provision for doubtful debts, etc. If the estimates are incorrect, the projections based on Comparative Statement will not be reliable.

(iii) **Ignores Qualitative Factors**: Financial statements are prepared from the monetary information whereas qualitative factors like manpower quality are ignored which have significant impact on the business.

(iv) **Ignores Price Level Changes**: Business transactions and events are recorded in the books at historical cost. At the time of preparing the Comparative Statement, value of money is not same. Thus, when the value of money does not remain same, a comparison may be meaningless.
(c) Variation in Accounting Policies: When two firms follow different accounting policies, then meaningful comparison of their financial statements is not possible.

Tools (Techniques) for Comparison of Financial Statements

Comparison and analysis of Financial Statements may be carried out by using the following tools:
2. Comparative Income Statement or Comparative Statement of Profit and Loss.

COMPARATIVE BALANCE SHEET

“Comparative Balance Sheet analysis is the study of the trend of the same items, group of items and computed items in two or more Balance Sheets of the same business enterprise on different dates.”

—Foulka

Comparative Balance Sheet is the horizontal analysis of Balance Sheet in which each item of assets, equity and liabilities is analysed horizontally (i.e., showing increase/decrease in each item) for two or more accounting periods. It analyses each item of Assets, Equity and Liabilities in absolute amount as well as in percentage by taking amount of previous year as base.

Advantages of Comparative Balance Sheet

1. A Balance Sheet shows the balances of accounts after closing the books at a certain date, whereas the Comparative Balance Sheet shows not only the balances of accounts as at different dates but also the extent of their increase or decrease between these dates.
2. In a Balance Sheet, the emphasis is on status, whereas in the Comparative Balance Sheet the emphasis is on change. In other words, Comparative Balance Sheet shows the reasons for change in Financial Position.
3. Comparative Balance Sheet is more useful than Balance Sheet as it has data of two Balance Sheets which may be used in studying the trends in enterprise.
4. It shows the effects of business operations on its assets, equity and liabilities. It is a link between the Balance Sheet and the Statement of Profit and Loss.

Preparation of Comparative Balance Sheet

Comparative Balance Sheet has six columns with the following information:
First Column has the items or components of Balance Sheet.
Second Column has the note number against the item in the Balance Sheet.
Third Column has data (amounts) of current year’s Balance Sheet.
Fourth Column has data (amounts) of previous year’s Balance Sheet.
Fifth Column has differences (increase or decrease) in amounts between the current year and previous year.

Sixth Column has the above differences (increase or decrease) expressed as percentage, taking previous year's amount as the base. Percentage is calculated with the help of formula given below:

\[
\text{Percentage Change} = \frac{\text{Absolute Change}}{\text{Amount of Previous Year}} \times 100 = \ldots \%.
\]
COMPARATIVE INCOME STATEMENT

OR

COMPARATIVE STATEMENT OF PROFIT AND LOSS

Statement of Profit and Loss or Income Statement shows the financial performance, i.e., net profit earned or net loss incurred by the company during the year. Comparative Statement of Profit and Loss is the horizontal analysis of Statement of Profit and Loss which shows:

(i) the operating results for the compared accounting periods,
(ii) changes in data in terms of absolute amount, and
(iii) percentage from one period to another.

Comparative Income Statement or Comparative Statement of Profit and Loss shows the:
- Revenues and Expenses in absolute values.
- Increase or decrease of revenues and expenses in absolute values.
- Percentage changes in revenues and expenses.

Objectives of Comparative Income Statement

1. To analyse Revenue and Expenses for two or more years.
2. To analyse increase or decrease in Revenue and Expenses in terms of money and also the percentage.
3. To review business operations of the last year and its likely effect on the current year's operations.

Stating differently, the objective is to know the reasons for changes in Financial Performance.

STATEMENT OF PROFIT AND LOSS

The Syllabus prescribes that Part II of Schedule III of the Companies Act, 2013 is excluded for the purpose of preparing Final Accounts of a Company.

However, for the preparation of Comparative and Common-size Income Statement the extent and format of Statement of Profit and Loss is to be studied. It should be noted that the Council has not specified complete Statement of Profit and Loss to be studied. The format for 'Statement of Profit and Loss' as specified in the syllabus is as follows:
Preparation of Comparative Income Statement or Comparative Statement of Profit and Loss

Comparative Income or Comparative Statement of Profit and Loss, like Comparative Balance Sheet, is prepared having six columns and has following information:

First Column: In this column, the items of Statement of Profit and Loss (e.g., Revenues and Expenses) are written.

Second Column: In this column, Note Number given against the item in the Statement of Profit and Loss is written.

Third Column: In this column, the amounts of items for the current year are written.

Fourth Column: In this column, the amounts of items for the previous year are written.

Fifth Column: In this column, differences (increase or decrease) in amounts between the current year and previous year are written.

Sixth Column: In this column, the above differences (increase or decrease) expressed as a percentage of previous year’s amount are shown.

Percentage Change = \( \frac{\text{Absolute Change}}{\text{Amount of the Previous Year}} \times 100 = \ldots \% \).