



1. (c)
2. (a)
3. (d)
4. (a)
5. (b)
6. (d)
7. (d)
8. (a)
9. (d)
10. (d)
11. **To determine Liquidity** (Short-term Solvency): It means ability of the enterprise to meet its short-term obligations as and when they become due is the objective of financial statement analysis in the given statement.
Two other objectives of Financial Analysis:
 1. *To determine operating efficiency* with which resources are utilised in generating revenue.
 2. *To compare inter-firm position, (i.e., Evaluating the relative financial performance and position of the enterprise in the industry) and to identify the strong and weak areas (if any) and taking necessary corrective action.*
12. **Importance of Financial Analysis**
Importance for Financial Manager: Financial Analysis is useful for financial manager for taking financial decisions for the business. Financial analysis can bring to light the financial strengths and weaknesses of the business. It helps in studying accounting data so as to determine the continuity of the operating policies, investment value in the business, credit ratings and testing the efficiency of operations.
Importance for Top Management: Financial Analysis helps in measuring the success of company's operations, decision making as well as in controlling and self evaluation. On the basis of financial analysis, management can assess the firm's (a) short-term and long-term solvency, (b) effective utilisation of resources, and (c) profitability.
13. **Analysis of Financial Statements** is a systematic process of identifying the financial strengths and weaknesses of the firm by establishing relationship between the items of the Balance Sheet and Income Statement.

Limitations of Financial Analysis

- (i) *Ignores Price Level Changes*: Financial analysis fails to disclose current worth of the enterprise since it is based on financial statements, which are merely a record of the historical facts.
- (ii) *Window Dressing*: The term window dressing means manipulation of books of account to conceal vital facts and presentation of the Financial Statements so as to show a position better than what it actually is. On account of such a situation, financial analysis cannot be a definite indicator of a good management.

14. Areas of Interest for Investors or Shareholders

- (i) Knowledge of short-term and long-term solvency of the firm.
- (ii) Knowledge of return on investment, *i.e.*, profitability.

Areas of Interest for Management

- (i) Knowledge of performance of the enterprise as a whole, *i.e.*, profitability.
- (ii) Knowledge of short-term and long-term solvency position of the enterprise.