

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Common-size Financial Statements

Common-size Financial Statements are the statements in which amounts of individual items of Balance Sheet and Statement of Profit & Loss for two or more years are written. These amounts are further converted into percentage to some common base.

2. Common-size Balance Sheet

Common-size Balance Sheet is a statement prepared to show each item or component of Balance Sheet as a percentage of total of Equity and Liabilities or total Assets taken as 100.

3. Common-size Income Statement

Common-size Income Statement is prepared to show each item or component of Statement of Profit & Loss as a percentage of Revenue from Operations, *i.e.*, Net Sales taken as 100.

SUMMARY OF THE CHAPTER

- **Common-size Financial Statement**

Common-size Financial Statement is a tool of financial analysis in which amounts of individual entries (items) of Balance Sheet and Statement of Profit & Loss (or Income Statement) for two or more years are written. These amounts are further converted into percentages to a common base.

- **Objectives of preparing Common-size Statements**

1. To analyse the change in each item of the statement as a percentage to a common-base.
2. To determine the trend of different items of the statement.
3. To assess the efficiency.

- **Common-size Balance Sheet**

Common-size Balance Sheet is the statement in which amounts of individual items of Balance Sheet for two or more years are written. These amounts are further converted into percentage to a common base which is total of Equity and Liabilities or total Assets.

- **Common-size Income Statement, *i.e.*, Statement of Profit & Loss.**

Common-size Income Statement or Common-size Statement of Profit & Loss is the statement in which amounts of individual items of Statement of Profit & Loss for two or more years are written. These amounts are further converted into percentage to a common base which is Revenue from Operations.