

# Financial Statements Interview Questions And Answers Guide.



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# Financial Statements Job Interview Preparation Guide.

## Question # 1

What are Investments?

### Answer:-

Investments indicate the amount of funds invested by the organization outside the business for earning income by way of dividend, interest etc.

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## Question # 2

Explain Miscellaneous Expenditures?

### Answer:-

Miscellaneous Expenditures are the incidental expenses which cannot be classified as manufacturing, selling, and administrative expenses. These expenses are not revenue in nature and hence shown in the asset side of the Balance Sheet and should be written off over a period of time. Example: Preliminary Expenses, Development expenditures and expenditure on raising of shares and debentures.

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## Question # 3

What is Ratio Analysis?

### Answer:-

Ratio Analysis is a systematic technique of analysis and interpretation of financial statements i.e Profitability statement and Balance sheet with the help of various ratios so that the strengths and weakness and the financial position of the firm can be determined. This technique is not a creative technique as the information already given in the financial statements is used.

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## Question # 4

Explain why do businesses prepare financial statements?

### Answer:-

Basically to know the two facts about the business the financial statements are prepared:

- Financial position of the business at any given point of time in financial terms
- Result of operations carried out by the business organization during specific period.

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## Question # 5

What are Current Assets?

### Answer:-

Current Assets : are the assets which get generated during the course of operations and are likely to be converted in the form of cash or getting utilized during the normal operational cycle of the business within a short span of time of one year. Example: Sundry Debtors, Prepaid expenses, Stock etc.

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## Question # 6

What is Funds Flow Analysis?

### Answer:-

Funds Flow Analysis : is the analysis in which Funds flow statement is prepared in order to determine the sources and application of funds. Fund flow statement is commonly used in business plans and proposals to show investors about the flowing of their funds through the organization. This is not used in annual reports. It is used by bankers who want to know how borrowed funds will flow through company operations. It is used to show the management how the cash is flowing through the company operations.

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### Question # 7

Explain Profit and Loss Account debit balance?

#### Answer:-

As per the business entity principle, owner is different from the business. Thus, the profit generated by the business belongs to the shareholders, and hence the business is liable to shareholders for the distribution of profits. In the same way, when loss is incurred in the business it is born by the owners. Hence, it is an asset for the business as it is a receivable from the owners.

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### Question # 8

Explain Reserves and Surpluses?

#### Answer:-

Reserves and Surpluses indicate that portion of the earnings, receipt or other surplus of the company appropriated by the management for a general or specific purpose other than provisions for depreciation or for a known liability. Reserves are classified as: Capital Reserve and Capital Redemption Reserve.

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### Question # 9

Tell me what techniques are used for the analysis and interpretation of financial statements?

#### Answer:-

The techniques used for the analysis and interpretation of financial statements are:

- Ratio Analysis is a systematic technique of analysis and interpretation of financial statements i.e Profitability statement and Balance sheet with the help of various ratios so that the strengths and weakness and the financial position of the firm can be determined. This technique is not a creative technique as the information already given in the financial statements is used.

- Funds Flow Analysis : is the analysis in which Funds flow statement is prepared in order to determine the sources and application of funds. Fund flow statement is commonly used in business plans and proposals to show investors about the flowing of their funds through the organization. This is not used in annual reports. It is used by bankers who want to know how borrowed funds will flow through company operations. It is used to show the management how the cash is flowing through the company operations.

- Cash Flow Analysis is the analysis in which Cash Flow Statement is prepared which shows changes in inflow & outflow of cash during the period. Cash flow statement is an analysis tool used by large and medium scale companies for Inflow and Outflow of money during a particular period of time.

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### Question # 10

Do you know Balance Sheet?

#### Answer:-

Balance Sheet : is a position statement as it refers to a particular date. It is also referred to as Statement of Sources and Application of Funds. It informs about the various sources used by the organization which are technically known as liabilities to raise the funds which are referred as assets.

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### Question # 11

Please tell me what are the two most basics financial statements prepared by the companies?

#### Answer:-

Financial statements are prepared in two forms:

• Balance Sheet : is a position statement as it refers to a particular date. It is also referred to as Statement of Sources and Application of Funds. It informs about the various sources used by the organization which are technically known as liabilities to raise the funds which are referred as assets.

• Profitability Statement also known as Profit and Loss Account. It is a period statement as it refers to a particular period.

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### Question # 12

What is Cash Flow Analysis?

#### Answer:-

Cash Flow Analysis is the analysis in which Cash Flow Statement is prepared which shows changes in inflow & outflow of cash during the period. Cash flow statement is an analysis tool used by large and medium scale companies for Inflow and Outflow of money during a particular period of time.

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### Question # 13

What are Loans?

#### Answer:-

Loans which comes under long term liabilities. It may consist of long term loan borrowed from banks or financial institutions and are paid off over a longer span of time say 5-10 years.

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### Question # 14

What are Fixed Assets?

#### Answer:-

Fixed Assets indicate the value of infrastructural properties acquired by the business where the benefits are likely to be received over a longer period of time. These assets are not supposed to be sold but they are used to do the business and to earn profits. Example: Plant, Machinery, Furniture, Building, Land etc.



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### **Question # 15**

Explain Provisions for?

**Answer:-**

- o Taxation
- o Doubtful Debts
- o Dividend
- o Contingencies
- o Provident Funds Scheme
- o Insurance, pension
- o Other provisions

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### **Question # 16**

What are Secured Loans?

**Answer:-**

Secured Loans are the loans which are secured wholly or partly against the assets of the company. Following are the secured loans:

- Debentures
- Loans and Advances from Banks
- Loans and Advance from Subsidiaries
- Other Loans and Advances

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### **Question # 17**

What are Advances?

**Answer:-**

Advances are the sums paid or received before an obligation is fulfilled. This comes under current liabilities. Example: Advance received from customers and income received in advance.

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### **Question # 18**

What are Current Liability includes?

**Answer:-**

Current Liability includes loans, deposits and bank overdraft which fall due for payment in a relatively short time, normally not more than 12 months. Following are the current liabilities:

- o Acceptance
- o Sundry Creditors
- o Subsidiary Companies
- o Advance received and unexpired discount
- o Unclaimed dividend
- o Other liabilities
- o Interest accrued but not due on loans

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### **Question # 19**

What are Unsecured Loans?

**Answer:-**

Unsecured Loans are the loans which are not secured against any security of the assets of the company. Following are the Unsecured Loans:

- Fixed Deposits
- Loans and Advances from Subsidiaries
- Short Term Loans and Advances
- Other Loans and Advances

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### **Question # 20**

Explain Share Capital?

**Answer:-**

Share Capital is that portion of a company's equity that has been obtained by issuing share to a shareholder. The amount of share capital increases as new shares are sold to public in exchange for cash.

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### **Question # 21**

Explain Limitations of Financial statements?

**Answer:-**

Limitations of Financial statements are:



- Financial statements are available after a specific period of time is over.
- They give the information about the historic facts which may not be sufficient from the decision making point of view.
- Financial statements which are based on financial accounting are interim reports and cannot be the final ones.
- While preparing Balance sheet various assets and liabilities are shown at historical prices as they are made on the going concern principle which may affect the profitability statement as well as in the incorrect provision for depreciation.
- Only those transactions are recorded which can be expressed in monetary terms
- Financial statements prepared may be useful for normal users in the normal conditions.
- Financial statements by them self does not mean anything unless the information stated therein is properly studied, analyzed and interpreted.

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### **Question # 22**

Explain how can the analysis of financial statements be carried out?

#### **Answer:-**

There are two ways in which analysis of financial statements can be carried out:

- Internal Analysis indicates the analysis carried out by the management of the company to enable the decision making process. This analysis is carried out in the legal or statutory matters in which parties have the access to the books and records of the company. This is carried out in the legal or statutory matters.
- External Analysis indicates the analysis carried out by the creditors, prospective investors and other outsiders who do not have the access to the books and records of the company.

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### **Question # 23**

Explain Profitability Statement?

#### **Answer:-**

Profitability Statement also known as Profit and Loss Account. It is a period statement as it refers to a particular period.

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- 2 : [Capital Market Frequently Asked Interview Questions and Answers Guide.](#)
- 3 : [Bank Reconciliation Frequently Asked Interview Questions and Answers Guide.](#)
- 4 : [Profit And Loss Frequently Asked Interview Questions and Answers Guide.](#)
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