

**TAVUA COLLEGE**  
**YEAR 12 ACCOUNTING**  
**WEEKLY HOME STUDY PACKAGE – WEEK 1 (05/07/21 – 09/07/21)**

**SOLUTION**

**Multiple Choice**

Q1. C **(1 mark)**

**Short Answer – Solutions**

- Q1.
1. Vertical Analysis - analysis of relationship between items or group of items within the financial statement for one accounting period.
  2. Horizontal Analysis - analysis of relationship between items or group of items within the financial statement for consecutive accounting period.
  3. Trend Analysis - analysis of relationship between items or group of items within the financial statement for a period of three or more years.
  4. Ratio Analysis - is an arithmetic term which describes a simple relationship between two numbers. Accountants use ratio analysis to make financial decisions. **(Any two points– 1 mark each)**

- Q2.
- The most important benefit if financial statement analysis is that it provides an idea to the investors about deciding on investing their funds in a particular company.
  - the company is able to analyze its own performance over a specific time period.
  - helpful to the government agencies in analyzing the taxation owed to the firm.
- (Any two points – 1 mark each)**

- Q3.
- It enables us to compare budgeted results with the actual results of the business.
  - Able to see the progress of the business in comparison to the past results. **(Any one point – 1 mark)**

Q4.

Trend Analysis is analysis of relationship between items or group of items within the financial statement for a period of three or more years **whereas** Vertical Analysis is analysis of relationship between items or group of items within the financial statement for one accounting period. **(“whereas” must be used – 2 marks)**

- Q5.
1. Items that cannot be quantified in monetary terms are not included in the ratio analysis.
  2. Single year’s figures are meaningless unless compared to the previous year of the business trend.
  3. Calculations are based on historical cost ignoring the changes in the price level.
  4. Different businesses may have different accounting policies which make comparison rather difficult in the same industry. For example, one firm may charge depreciation on straight line basis and the other on diminishing value method.
  5. Ratio analysis explains the relationships between past information while users are more concerned about current and future information. **(Any 2 points – 2 marks)**

- Q6.
- Horizontal Analysis
  - Vertical Analysis
  - Trend Analysis
- (1 mark each, 3 marks)**