20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **Financial Statement Analysis converts raw accounting data into decision-useful information for lenders.**
   It turns balance sheet, P&L and cash flow figures into judgments a banker can act on.

2. **The balance sheet is a stock concept showing what a firm owns and owes on a given date.**
   It is a snapshot of assets, liabilities and net worth at one point in time, not over a period.

3. **The profit and loss account is a flow concept showing how much a firm earned over a period.**
   Unlike the balance sheet, it measures income and expenses across an accounting period.

4. **The cash flow statement reconciles accrual profit with actual cash movements.**
   It splits cash movement into operating, investing and financing activities to show real liquidity.

5. **ABFM examiners frame Financial Statement Analysis questions around liquidity, solvency and profitability.**
   These three angles test whether a firm can pay short-term dues, survive long-term debt, and use capital productively.

6. **Horizontal analysis compares each line item across two or more periods in rupees and percentage terms.**
   It reveals trends such as sales growth versus faster-rising interest cost.

7. **Vertical or common-size analysis expresses each line as a percentage of a base like total assets or net sales.**
   Removing the size effect lets a banker compare a small firm with a large one on the same footing.

8. **Trend analysis indexes a base year to 100 and tracks movement over several years.**
   It highlights structural change in a firm's financials over a longer horizon.

9. **The current ratio equals current assets divided by current liabilities.**
   Banks traditionally treat about 1.33:1 as the working-capital benchmark for this ratio.

10. **The quick ratio equals current assets minus inventory, divided by current liabilities.**
    It tests liquidity without relying on selling stock, with a rough norm of 1:1.

11. **The debt-equity ratio equals total debt divided by net worth and measures long-term gearing.**
    A lower debt-equity ratio generally signals safer long-term solvency for a borrower.

12 **Interest coverage ratio equals EBIT divided by interest expense.**
It shows how comfortably a firm's earnings can service its interest obligations.

13 **Return on equity equals net profit divided by net worth.**
It measures the return earned on shareholders' invested capital.

14 **DSCR equals PAT plus depreciation plus term-loan interest, divided by term-loan interest plus instalment.**
Lenders use the Debt Service Coverage Ratio to judge a project's ability to repay term debt.

15 **A DSCR above 1.5 is generally considered comfortable in project finance lending.**
It indicates cash generation comfortably exceeds the debt-servicing obligation.

16 **DuPont analysis decomposes return on equity into net profit margin, asset turnover and equity multiplier.**
It separates whether high ROE comes from genuine profitability or from heavy leverage.

17 **Window dressing can involve repaying creditors just before year-end to inflate the current ratio.**
Analysts must watch for such temporary balance-sheet adjustments before trusting a reported ratio.

18 **Reported profit is based on accrual accounting and is not the same as cash in hand.**
A firm can show rising profit while its actual cash position deteriorates.

19 **The 1.33:1 current ratio benchmark used in bank lending traces back to the Tandon and Chore committee norms.**
These older committee recommendations still shape working-capital assessment practice.

20 **A disciplined exam answer follows the sequence compute, interpret, then state the limitation.**
This three-step structure converts a memorised ratio formula into analytical judgement that examiners reward.