FINANCIAL STATEMENT ANALYSIS

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ABSTRACT

Financial statements refer to such statements which contains financial information about an enterprise. They report profitability and the financial position of the business at the end of accounting period. The team financial statement includes at least two statements which the accountant prepares at the end of an accounting period. The two statements are: -The Balance Sheet Profit And Loss Account They provide some extremely useful information to the extent that balance Sheet mirrors the financial position on a particular date in terms of the structure of assets, liabilities and owners' equity, and so on and the Profit and Loss account shows the results of operations during a certain period of time in terms of the revenues obtained and the cost incurred during the year. Thus the financial statement provides a summarized view of financial position and operations of a firm.

Keywords*: Financial statements***,** *analysis, financial*

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1. INTRODUCTION

Financial statements are prepared for the purpose of presenting a periodical review or report by the management and deal with the state of investment in business and results achieved during the period under review. They reflect a combination of recorded facts, accounting conventions and personal judgments. From this it is clear that financial statements are affected by three things i.e., recorded facts, accounting conventions and personal judgments. Only those facts which are recorded in the business books will be reflected in the financial statements.

"Financial statements are the end products of financial accounting prepared by the accountant. That purports to reveal the financial position of the enterprise. The result of its activities and an analysis of what has been with earnings.

These are reports or summarized reviews about the performance, achievements and weakness of the business. The reliability of financial statement depends on the reliability of accounting data. These statements cannot be said to be true and fair representative of the strength or profitability of the concern if there are numerous frauds and defalcation in the accounts. The figures in the financial statement are a combination of recording facts. These may be certain developments and facts which may be very impartment for the business are not taken into account as these are not recorded in the routine of accounting. Moreover, fixed assets are recorded at historical value without taking into consideration the changes in their values due to price level fluctuations. Analysis is the process of critically examining in detail accounting information gives in the financial statement. For the purpose of analysis individual items are studied, their interrelationships with other related figures established, the data is sometime rearranged to have better understanding of the information with the help of different techniques or tools for the purpose. An analysis financial statement is a process of evaluating relationship between component parts of financial statements to better understanding of firm's position and performance. Analysis and interpretation are closely related. Interpretation is not possible without analysis and without interpretation analysis has no value. Various account balances appear in the financial statements. These accounts balance do not represent homogeneous data so it is difficult to interpret them and draw some conclusions.

2. REVIEW OF FINANCIAL STATEMENTS

A financial statement is an organized collection of data according to logical and consistent procedures. Its purpose is conveying and understanding of some financial aspects of some business firm. It may show a position at a moment of time as in the case of a balance sheet, or may reveal series of activities over a given period of time, as in case of an income statement.

Thus, the term financial statement generally refers to two basis statements:

1. Profit and loss account

2. Balance sheet

1. PROFIT AND LOSS ACCOUNT:

The income statement is also called as income statement, it is considered to be the most useful of all financial statement. It prepared by a business concern in order to know the profit earned and loss sustained during a specified period. It explains what has happened to a business as a result of operations between two balance sheet dates. For this purpose it matches the revenues and cost incurred in the process of earning revenues and shows the net profit earned or loss suffered during a particular period. The nature of Income which is a focus of the income statement can be well understood if business is taken as an organization that uses "Input" to produce "Output". The output of the goods and services that the business provides to its customers. The values of these outputs are the goods and services that the business provides to its customers. The values of these outputs are the amounts paid by the customers for them. These amounts are called "revenues" in the accounting. The inputs are the economic resources used by the business in providing these goods and services. These are termed "expenses" in accounting.

2. BALANCE SHEET:

Balance sheet is a statement of financial position of a business at a specified moment of time. It represents all assets own by the business at a particular moment of time and the claim of the owners and outsiders against those assets at that time. It in a way of the financial Cond balance sheet which is a static report.

TECHNIQUES OF FINANCIAL STATEMENT ANALYSIS

The following techniques can be used in connection with analysis and interpretation of financial statements.

1. Comparative Financial Statements
2. Common Size Statements
3. Trends Percentage Analysis
4. Funds Flow Statement
5. Net Working Capital Analysis
6. Cash Flow Statement
7. Ratio Analysis.

TYPES OF ANALYSIS

Different types of financial statements analysis can be made on the basis of

1. The nature of the analyst and the material used by him,
2. The objective of the analysis, and
3. The modus operandi of the analysis.

These are discussed one by one.

i). According to the nature of the analyst and the material used by him. On this basis, the financial analysis can be external and internal analysis:

a. External Analysis:

It is made by those persons who are not connected with the enterprise. They do not have access to the enterprise. They do not have access to the detailed record of the company and have to depend mostly on published statements. Such type of analysis is made by investors, credit agencies, governmental agencies and research scholars.

b. Internal Analysis:

The internal analysis is made by those persons who have access to the books of accounts. They are members of organization. Analysis of financial statements or other financial data for managerial is the internal type of analysis. The internal analyst can give more reliable result than the external analyst because every type of information is at this disposal.

ii). According to the objectives of the analysis. On this basis the analysis can be long-term and short-term analysis.

a. Long-term Analysis:

This analysis is made in order to study the long-term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. The purpose of making such type of analysis is know whether in the long-run the concern will be able to earn a minimum amount which will be sufficient to maintain a reasonable rate of return on the investment so as to provide the funds required for modernization, growth and development of the business and to meet its cost of capital. This type of analysis helps the long-term financial planning which is essential for the continued success of a business.

b. Short-term Analysis:

This is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business. The purpose of this analysis is to know whether in the short run a business concern will have adequate funds readily available to meet its short-term requirements and sufficient borrowing capacity to meet contingencies in the future. This analysis is made with reference to items of current assets and current liabilities (working capital analysis)

to have fairly sufficient knowledge about the company's current position which may be helpful for short-term financial planning and long-term planning.
iii). According to the modus operandi of the analysis. On this basis, the analysis may be

3. Horizontal analysis and vertical analysis

Horizontal (or Dynamic) Analysis:

This analysis is made to review and analyze financial statements of a number of years and is, therefore, based on financial data taken from several years. This is very useful for long-term trend analysis and planning, comparative financial statements are an example of this type of analysis.

Vertical Analysis:

This analysis is made to review and analyze the financial statements of one particular year only. Ratio analysis of the financial performance relating to a particular accounting year is example of this of analysis position of the business at that time.

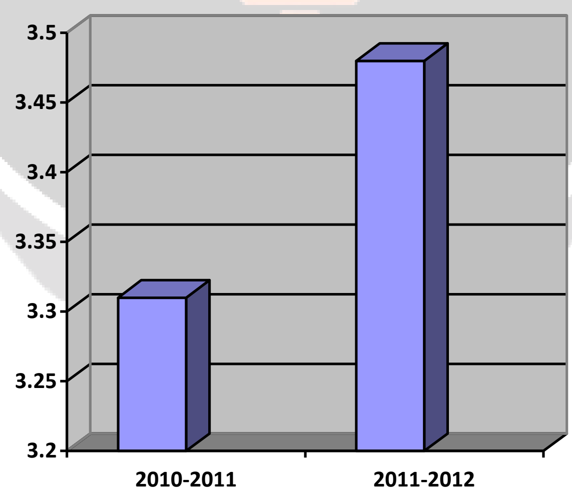
RATIO ANALYSIS AND INTERPRETATIONS

COMPANY LEVEL:

1. **Current Ratio:**

Year	2010-2011	2011-2012
Current Assets	13764.93	13641.90
Current Liabilities	4156.02	3920.11
Ratios	3.31	3.48

Formula:
Current Ratio = Current Assets / Current Liabilities



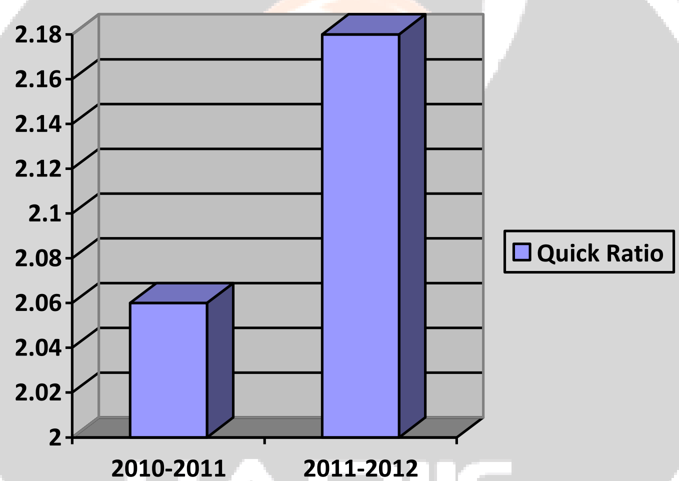
Interpretation:

The position of current ratios is showing an increasing trend in the year 2010-11 and 2011-12. As per the standard rule, for every one rupee of current liabilities two rupees of current assets a4re to be maintained. Hence, in the year of analysis the current ratio position is very good.

2. Acid Test or Quick Ratio:

Year	2010-2011	2011-2012
Quick Assets	8590.11	8560.11
Current Liabilities	4156.02	3920.11
Ratios	2.06	2.18

$$\textbf{Quick Ratio} = \frac{\textbf{Quick Assets / Current Assets – Inventories}}{\textbf{Current Liabilities}}$$



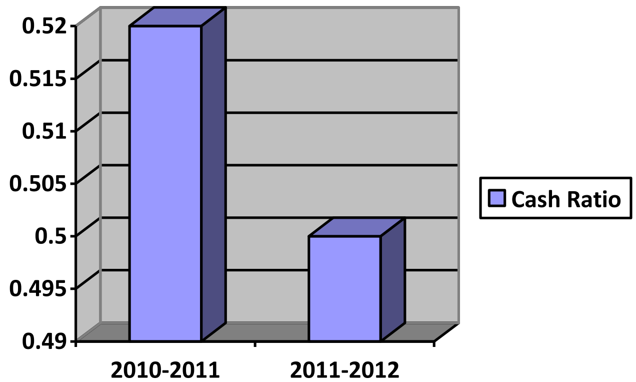
<u>Interpretation</u>:

The quick ratio position of the company was not satisfactory as the standard is 1:1, but the company's quick ratio was more than 2 against current liabilities.. Thus, the company needs improve it much.

3. <u>Cash Ratio</u>:

Year	2010-2011	2011-2012
Quick Assets	2172.81	1951.56
Current Liabilities	4156.02	3920.11
Ratios	0.52	0.50

Formula:
Cash Ratio =Quick Assets/Current Liabilities

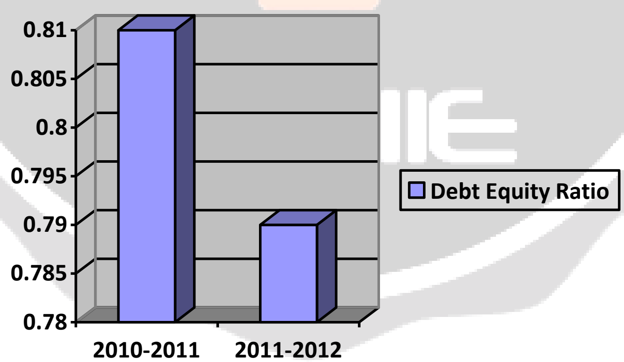


<u>Interpretation</u>:

Since, the standard cash ratio for any company is 0.5, Impact Solutions Ltd. Was able to maintain a balance in the ratio of cash and bank balance to current liabilities. But during the year 2011-12 the cash ratio was 0.50 and it decreased from .52 But it shows a satisfactory level of cash ratio.

4. <u>Debt Equity Raito</u>:

Year	2010-2011	2011-2012
Total Debt	6572.57	6799.71
Shareholders Equity	8032.83	8614.61
Ratios	0.81	0.79

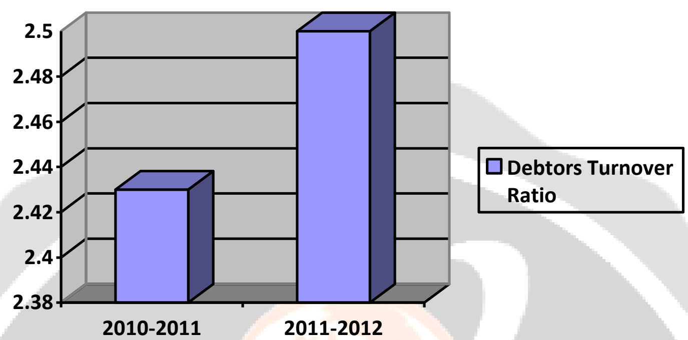


Interpretation:

In the year 2011-12 the position of Debt Equity Ratio was high as compared to previous year. During the year 2010-11 the Debt Equity Ratio was low, this indicates that greater protection was provided to the creditors in the year as compared to previous years.

5. Debtors Turnover Ratio:

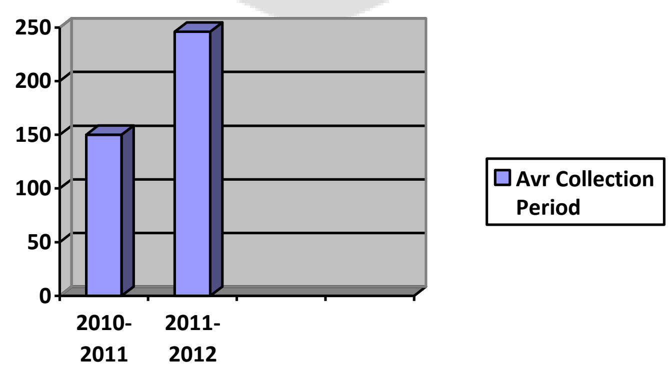
Year	2010-2011	2011-2012
Net sales	18644.74	17677.81
Average Debtors	7666.47	7074.07
Ratios	2.43	2.50



Interpretation:
The Debtors Turnover Ratio is showing an increasing trend from the year 2011-12 and hence it indicates the company's efficient credit management.

6. Average Collection Period:

Year	2010-2011	2011-2012
No. of Working Days	365	365
Debtors Turnover Ratio	2.43	2.50
ACP	150.20	246.00

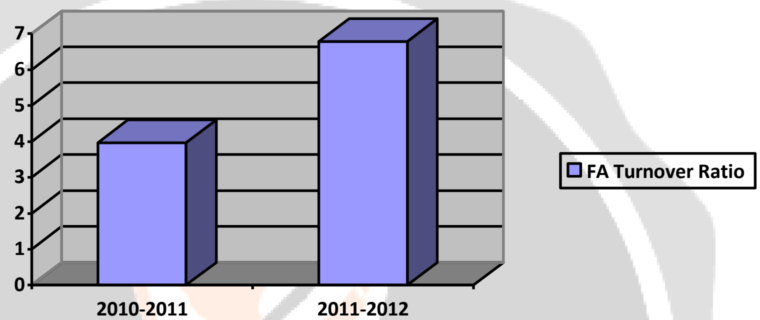


Interpretation:

Since, the Average Collection Period is less in the year 2011-2012 i.e. 246 days it is a prompt collection period.

7. Fixed Assets Turnover Ratio:

Year	2010-2011	2011-2012
Net sales	18644.74	17677.81
Average Net Fixed Assets	4686.44	2605.71
Ratio	3.97	6.78

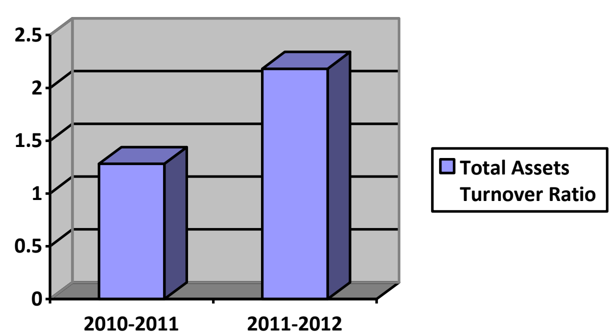


Interpretation:

In Impact Solutions Ltd. The Fixed Assets Turnover Ratio was at peak during the year 2010-11, but it decreased during the period 2011-12., this ratio indicated the degree of utilization of Fixed assets.

8. Total Assets Turnover Ratio:

Year	2010-2011	2011-2012
Net sales	18644.74	17677.81
Average Total Assets	14605.41	8074.87
Ratios	1.28	2.18

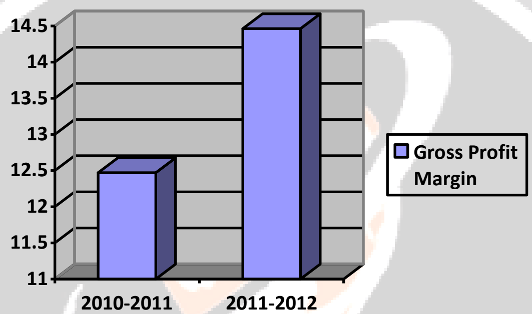


Interpretation:

The Total Assets Turnover Ratio shows the degree of effective utilization of all assets in the Determination of sales. During the year

9. Gross Profit Margin:

Year	2010-2011	2011-2012
Gross Profit	2481.69	2816.68
Net sales	19897.08	19482.03
Ratios	12.47	14.46

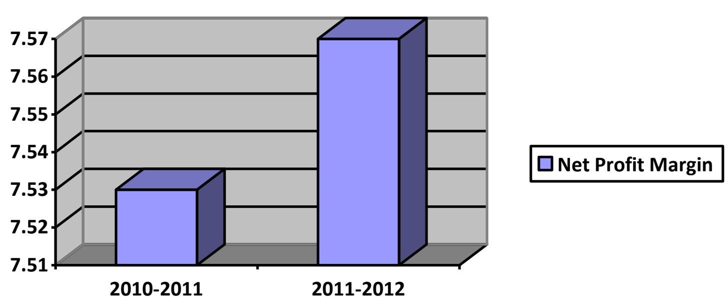


Interpretation:

The Gross Profit Margin is showing an increasing trend from the year 2010-11 to 2011-12. It has been increasing showing the overall profitability position of the company.

10. Net Profit Margin:

Year	2010-2011	2011-2012
Net Profit	1499.15	1475.3
Net sales	19897.08	19482.03
Ratios	7.53	7.57



Interpretation:

The higher the ratio the more profitable the business is. However, one must look at the factors contributing to the Net Profit. The Net Profit ratio of Impact Solutions Ltd. Is 7.57% in the year 2011-2012 Though there are fluctuations in the Net Profit it so far good for the company.

4. SUGGESTIONS

Overall position of the company is good as per the financial statements, But they have to reduce current ratio and quick ratio. Assets turnover ratio also to be improved for the better position in a long run.

Available funds and investments to be effectively utilized for more profits and advised to maintain reserves for the consistency. They should aim on maximization of wealth. And also they need to emend policies for the credit Management. Company has to reduce costs and maintain good relationships with the customers for the better outputs and profits.

5. CONCLUSION

The financial status of any organization can be known from the analysis of fundamentals of the organization. Fundamentals mean Income Statement and Balance Sheet of the organization. The various tools available to analyze the firm's financial position are discussed in the present project work. Main emphasis was given on comparative balance sheet analysis and Ratio analysis. The performance and position of the firm can be analyzed and interpreted in terms of inter firm and intra firm so that measures can be taken to improve the financial position of the firm. The present project work shows the performance and position of the firm is good and satisfactory.

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