

# **A STUDY ON FINANCIAL STATEMENT ANALYSIS**

**REBBACCAL.A<sup>1</sup>**

**BHUVANESHWARI.A<sup>2</sup>**

*Department of Business Administration,  
Dhanalakshmi Srinivasan College of arts and science for women (Autonomous),  
Perambalur*

## **ABSTRACT**

Financial statement analysis is the process of identifying the financial strength and weakness of the firm and establishing relationship between the items of the balance sheet and profit and loss account. Financial statement refer to a package of statement such as balance sheet, income statement and fund flow statement, cash flow statement of retained earnings. The profit and loss account present a bird's eye view of the operation for the enter period, while the balance sheet portrays the financial position at a point time when the accounting period comes to a close. Apart from profit and loss account and balance sheet, statement of retained earnings, schedule of fixed assets, schedule of debtors....

Key words: Financial statement, analysis, Financial ratio

## **INTRODUCTION**

Financial statement analysis is the process of reviewing and analyzing a companys financial statements to make better economic decision to earn income future. These statements include the income statement, balance sheet, statement of cash flows, notes to accounts analysis is a method or process involving specific techniques for evaluating risks, performance, financial health, and future prospects of an organization.

It is comprising the balance sheet and the profit and loss account is that they do not give all the information related to financial operation of a firm. It is used by a variety of stakeholders, such as credit and equity investors, the government, the public, and decision maker within the organization. These stakeholders have different interest and apply a variety of different techniques to meet theirneeds. Financial statements are prepared for the purpose of presenting a periodical review report on the progress by the management and deal with the status of investment in the business and the result achieved during period under review. The statement disclosing status of investment is known as balance sheet and the statement showing result is known as profit and lossaccount.

## **REVIEW OF LITERATURE**

**AUTHOR NAME: Jagannadha Rao**

**YEAR: (2016)** in his study states that there is poor state of financial performance of the company is the cumulative result of unfavourable factors such as continuous low capacity utilization of the units, fall in sugar recovery in some of the units, poor operational

performance, high cane price advised by the State Government and paid up by the company, low levy price of sugar. Remedy for the poor financial performance is rather a stupendous task. Not all-sided approach is required: better the operational performance of the sugar units particularly the sick units, paying reasonably high cane price, reducing the cost of production by improving capacity utilization, and taking advantage of free quota to make good the losses suffered due to low levy price.

**AUTHOR NAME: Doron Nissim & Stephen H Penman**

**YEAR: (2016)** in his research article on financial performance he has pointed that this paper outlines a financial statement analysis for use in equity valuation. Standard profitability analysis is incorporated, and extended, and is complemented with an analysis of growth. The perspective is one of forecasting payoffs to equities. So financial statement analysis is presented first as a matter of Performance analysis of the future, with forecasted ratios viewed as building blocks of forecasts of payoffs.

**AUTHOR NAME: Kennedy and Muller**

**YEAR: (2015)** in his research article on financial performance he has pointed that the analysis and Inferences/interpretation of financial Statements are an attempt to determine the significance and meaning of financial statements data So that the forecast may be made of the prospects for future earnings, ability to pay interest and Debt maturates (both current and long term) and profitability and sound dividend policy

**AUTHOR NAME: Kakani et al.**

**YEAR: ( 2015)** examined the determinants of firm performance for 566 Indian firms. They tool ROA, ROCE, cash flow ratio, Sales to asset, gross profit margin, net profit margin, return on Net worth etc., as dependent variable and size, age, leverage, working capital ratio, business group affiliation etc., as determinants of firm performance and found that size, market expenditure and international diversification had a positive relation with market valuation for firms. A firms ownership composition, particularly the level of equity ownership by domestic financial Institutions and Dispersed public shareholders, and the leverage of the firm were important factors affecting its financial performance.

**AUTHOR NAME: Elizabeth Duncan and Elliott**

**YEAR: (2015)** in his research article on financial performance he has pointed that he had

stated that the paper in the title of efficiency, Customer service and financing performance among Australian financial institutions showed that All financial performance measures as interest margin, return on assets, and capital adequacy are Positively correlated with customer service quality scores

**AUTHOR NAME: Krishna Prasad Upadhyay**

**YEAR: (2014)** used different types of financial ratios to check up the financial performance of the selected finance companies. Basically in this study he used solvency ratio, liquidity ratio, efficiency ratio, profitability ratio and valuation ratio. Different measures like return on investment, return on equity, return on assets, earning per share, dividend per share, and asset utilization ratio are used to assess the profitability of the companies. He concluded his study stating that the solvency position of both companies is not sound and credit creation capacity is good in both the companies in aggregate.

## **OBJECTIVES OF THESTUDY**

Every user of financial statements has a distinct objective for which he attempts to analyze and interpret. In spite of the variations in the objectives of interpretation by various classes of people, there are certain specific and common objectives for which data analysis is undertaken.

- To interpret the profitability and efficiency of various business activities with the help of incomestatement.
- To aid in economic decision-making investment and financialdecision.
- To gauge the financial position and financial performance of theconcern.
- To identify areas of mismanagement and potentialdanger.
- To ascertain the investment pattern of theresources.
- To ascertain the maintenance of financialleverage.

## **SCOPE OF THESYUDY**

### **Recordedfacts**

Record is made only of those facts which can be expressed in monetary terms. Facts which have not been recorded in the financial books are not depicted in the financial statements. Thus, the recorded facts consists of such as the amount of cash on hand and in the bank, the amount due from customers, the cost of fixed assets, the amounts payable to creditorsetc.

### **Accountingconventions**

In spite of the accounting standards laid down by the various accounting bodies, managements of concern are free to choose an accounting policy suited their concern. Accounting policies differ with regard to valuation of inventory,

depreciation, research, development etc.

## RESEARCH METHODOLOGY

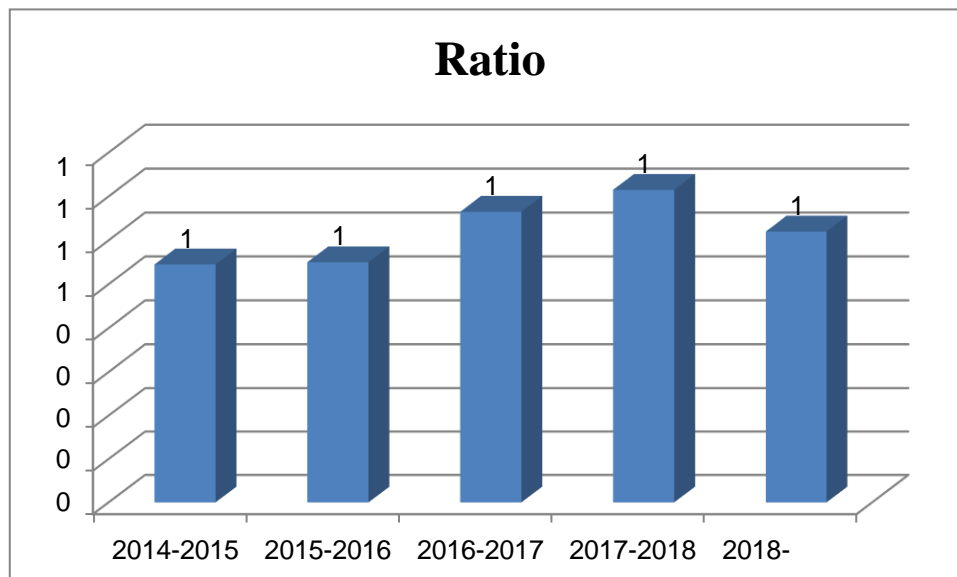
### CURRENT RATIO

PARTICULAR	CURRENT ASSETS	CURRENT LIABILITIES	RATIO
2014-2015	14,11,798	12,86,103	1.09
2015-2016	17,37,753	15,76,507	1.10
2016-2017	24,09,647	18,05,200	1.33
2017-2018	31,59,775	22,14,785	1.43
2018-2019	3,009,647	2,425,976	1.24

**SOURCE:** ANNUAL REPORTS OF COMPANY

**Interpretation:** - The current ratio of last four years is less than ideal ratio 2:1, i.e. fluctuating. This indicates that firm's commitment to meet its short liabilities was not so good. In 2016-2017:1.33 and 2017-2018:1.43 the current ratios are good compare to 2014-2015:1.09 and 2015-2016:1.10.

### CURRENT RATIO



### QUICK / ACID TEST / LIQUID RATIO:

Liquid ratio is indication of availability of quick assets to honor its immediate claims. Higher the ratio better the coverage. And the standard ratio is 1:1. An asset is liquid if

is can be converted into cash immediately without loss of value. Hence cash is most liquid assets after assets which are considered to be relatively liquid are; Debtor's balance, marketable securities etc. inventories considered to be less liquid therefore they require some time form relishing into cash and their value also has tendency to fluctuate.

Quick ratio = Liquid assets / Liquid liabilities  
 Liquid asset=CA-Stock & prepared expenses.  
 Liquid liabilities=CL-Bank overdraft.

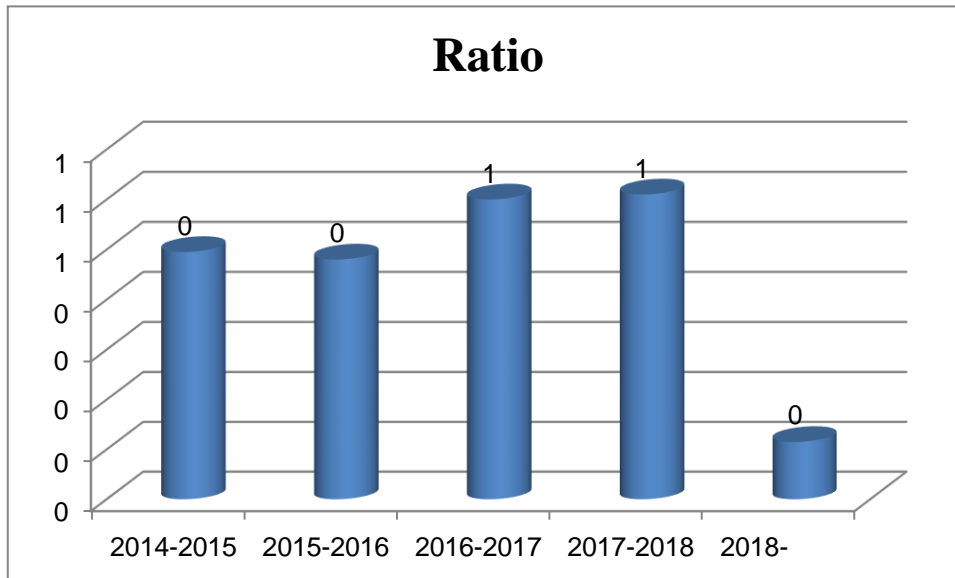
### QUICK / ACID TEST / LIQUID RATIO

<b>PARTICULAR</b>	<b>INVENTORIES</b>	<b>CURRENT LIABILITIES</b>	<b>RATIO</b>
2014-2015	12,84,269	12,86,103	0.99
2015-2016	15,19,792	15,76,507	0.96
2016-2017	21,79,920	18,05,200	1.20
2017-2018	27,03,911	22,14,785	1.22
2018-2019	629,727	2,425,796	0.23

**SOURCE:** ANNUAL REPORTS OF COMPANY

**Interpretation:** The quick ratio is also fluctuating. In 2016-2017:1.20 the ratio is satisfactory because it is higher than 1. And it is also good in 2016-2017 and 2016-2017.Because it is more than 1.But it has decreased in 2018-2019:0.23and 2014-2015:0.99 i.e. 0.96 and 0.23 respectively. Overall the quick ratio is satisfactory, means liquidity position of the company is good

## QUICK / ACID TEST / LIQUID RATIO



### CASH RATIO:

An asset which converts suddenly without doubtful is called as cash ratios. Here cash balance included trade investment or marketable securities that are equivalent to cash.

### Formula:

Cash Ratio =  $\frac{\text{Cash} + \text{Marketable Securities}}{\text{Current Liabilities}}$ .

### CASH RATIO

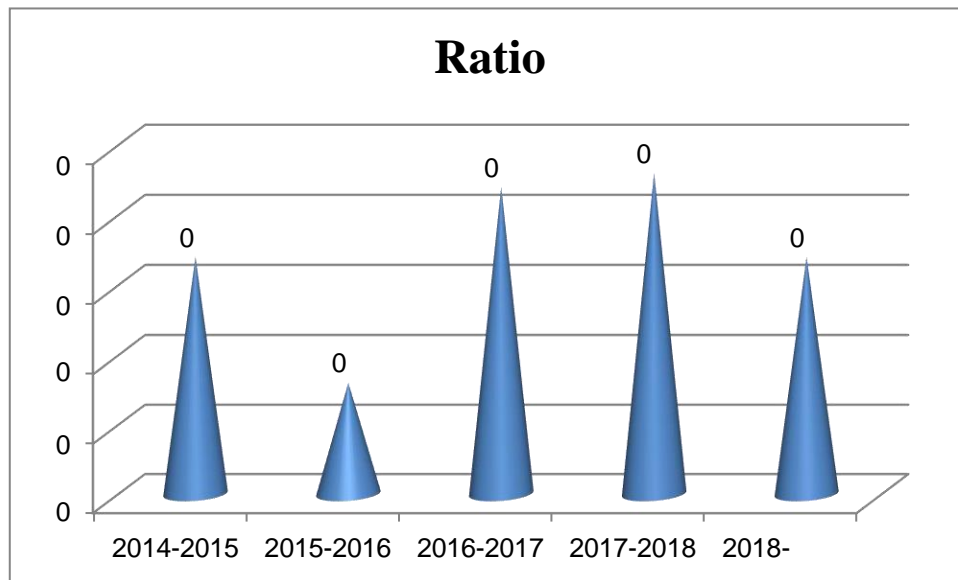
PARTICULAR	CASH	CURRENT LIABILITIES	RATIO
2014-2015	2,17,773	12,86,103	0.17
2015-2016	1,39,434	15,76,507	0.08
2016-2017	4,13,668	18,05,200	0.22
2017-2018	5,24,749	22,14,785	0.23
2018-2019	413,668	2,425,796	0.17

**SOURCE:** ANNUAL REPORTS OF COMPANY

**Interpretation:** In Cash ratio there is no standard ratios for maintained the cash balance because now a days nothing to be worried about the lack of cash if the company has reserve

borrowing power for its day to days activities. Holding of Cash in the year 2016-2017:0.22 was 23% of current liabilities in the 2015-2016:0.08 it came down to 8%, in the 2018-2019 it again increased to 0.17%.

### CASH RATIO



### INTERVAL MEASURES RATIO:

The ratio which assesses a firm's ability to meet its regular cash expenses is the interval measures. An interval measure relates to liquid asset and average daily operating cashflows.

Formula:

$$\text{Interval Measure ratio} = \frac{\text{current assets-inventories}}{\text{average daily operating expenses} / 360}$$

### FINDINGS

- Gross profit and net profits are decreased during the period of 2015-16, which indicates that firm's inefficient management in manufacturing and trading operations
- Liquidity ratio of the firm is better liquidity position in over the two years. It shows that the firm had sufficient liquid assets.**
- The fixed asset turnover ratio of the firm has in 2017-2018 the ratio is 3.23 or 2.26 respectively and it decrease.**
- cost ratio of the company has decreased during the period of 2015-16**

## CONCLUSION

This project of financial analysis & interpretation in the production concern is not merely a work of the project but a brief knowledge and experience of that how to analyze the financial performance of the firm. The study undertaken has brought in to the light of the following conclusions. According to this project I came to know that from the analysis of financial statements it is clear that Bharat Power Electronics Co, Thuvakudi have been incurring profit during the period of study. So the firm should focus on getting of more profits in the coming years by taking care internal as well as external factors. And with regard to resources, the firm is take utilization of the assets properly. And also the firm has a maintained lowinventory.

## Websites

- [www.investopedia.com](http://www.investopedia.com)
- [www.shodhganga.com](http://www.shodhganga.com)
- [www.accountingnotes.net](http://www.accountingnotes.net)