

A STUDY ON FINANCIAL STATEMENT ANALYSIS

Arrolla Raju¹, Mr. N. Rajender Reddy²

1Department of Management Studies Aristotle PG College, Chilkur, Moinabad, Ranga Reddy District, Telangana, India

²Assistant Professor Aristotle PG College, Chilkur, Moinabad, Ranga Reddy District, Telangana, India

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ABSTRACT

This chapter provides fundamental financial analysis based on ratio analysis, a powerful tool to assess the performance of a firm over a period, or to compare risk and return of firms of different sizes. The discussion centres on the income statement, the balance sheet, the statement of shareholders' equity, and the cash flow statement and the capitalisation of off-balance obligations. These provide the credit analyst with information to calculate the ratios, which are usually grouped into four categories: profitability, asset utilisation and efficiency, liquidity, and debt and solvency. The ratio examples are based on actual financial reports. Calculated accurately and analysed carefully, financial ratios are revealing and predictive. But financial statements can also mislead with window dressing and fraudulent reporting. The chapter provides examples.

Keywords: financial analysis, cash flow, profitability, financial ratios

1. INTRODUCTION

Meaning of Financial Statement:

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 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 summarized view of financial position and operations of a firm.

Meaning of Financial Analysis:

The first task of financial analysis is to select the information relevant to the decision under consideration to the total information contained in the financial statement. The second step is to arrange the information in a way to highlight significant relationship. The final step is interpretation and drawing of inference and conclusions. Financial statement is the process of selection, relation and evaluation.

Features of Financial Analysis:

- To present a complex data contained in the financial statement in simple and understandable form.
- To classify the items contained in the financial statement in convenient and rational groups.
- To make comparison between various groups to draw various conclusions.

Purpose of Analysis of financial statements:

- To know the earning capacity or profitability.
- To know the solvency.
- To know the financial strengths.
- To know the capability of payment of interest & dividends.
- To make comparative study with other firms.

2. REVIEW OF LITERATURE

ARTICLE: 1

TITLE: Financial Statement Analysis

Author: Aown Alshowishin

Source: International Journal of Scientific and Research Publications (IJSRP)

Well-organized accounting provides a systematic and chronological record of business transactions and other events, but also a complete picture of the effects of business transactions in the form of an annual report. The annual report is a legal and regulatory obligation for companies, and thus a potential subject of economic and financial analysis. By analyzing the financial statements, we get a picture of the (credit) creditworthiness of the company. The creditworthiness of a company is a quantitative and qualitative expression of the company's business ability and the security of its business. Creditworthiness assessment is often equated with creditworthiness and liquidity assessment, and as such is reduced to a narrower concept of creditworthiness. On the other hand, solvency in a broader sense implies a synthesized assessment of financial stability, liquidity, solvency, capital adequacy and structure, financial situation, profitability, risk of financial results, profitability and organization of the observed company.

ARTICLE: 2

TITLE: FINANCIAL STATEMENT ANALYSIS

Author: 1GOWSALYA R S

Source: International Journal for Research Trends and Innovation

The study entitled the financial performance analysis an Company. The objective of this study is to compare the current financial performance with last five years and to study the existing financial position of Company. The data used in this study is secondary data through annual report. The data that used in this study, comparative balance sheet, common size balance sheet, comparative balance sheet analysis ,that the current liabilities is higher than the current asset in every year and it is to be suggest that the company can concentrate on their increasing the level of the current asset. So the company improves this financial position. The study of financial performance on The Company has revealed the great deal of their various financial aspects for five years. The comparative analysis unlocks the overall performance methodology

ARTICLE: 3

TITLE: Financial Statement Analysis: A Review and Current Issues

Author: Andrew B. Jackson

Source: China Finance Review International, forthcoming

The literature on financial statement analysis attempts to improve fundamental analysis and to identify market inefficiencies with respect to financial statement information. In this paper, I review the extant research on financial statement analysis. I then provide some preliminary evidence using Chinese data and offer suggestions for future research, with a focus on utilising unique features of the Chinese business environment as motivation.

OBJECTIVES:

- To analyses and compare the financial position of the company for every two year.
- To measure the short term as well as long term creditworthiness position of the firm.
- To determine the liquidity position of the company based on the turnover.

3. RESEARCH METHODOLOGY

Need For The Study

Financial summary examination is used to find the examples and associations between spending report things. Both inside organization and outside the organization (demonstrate as inspectors, leasers, government and examiners) of the financial reports must to figure/find an association's productivity, liquidity, and dissolvability. The most broadly observed techniques used for cash correlated clarification examination are design examination, common size verbalizations, and extent examination. These strategies fuse tallies and examinations of the results to recorded association data, contenders, or industry midpoints to choose the relative quality and execution of the association being researched.

Scope Of The Study:

The degree is to drive noteworthy utilization of hypothesis for genuine usage. As the examination is focusing on distinguishing the present capability of the organization money related administration techniques and points, we recognize the best budgetary investigation strategy to be conveyed to improve the organization's approach to decide their benefit.

Methodology

RESEARCH

Research is a strategy in which the analysts wish to discover the final product for a given issue & along these lines the arrangement helps in forecasting game-plan. The examination has been all around characterized as “A cautious report or enquiry particularly through scan for new realities in part of information”

RESEARCH DESIGN

The examination configuration utilized in this task is Analytical/intelligent in nature the technique utilizing, which analyst needs to utilize certainties, data officially accessible, and investigate these to make a basic assessment of the execution.

TYPES OF RESEARCH

Descriptive research

DATA COLLECTION

- SECONDARY DATA
- From the annual reports maintained by the organization/company such as Statement of the profit and loss Balance sheets
- Books and journals pertaining to the topic.
- Data are collected from the company website.

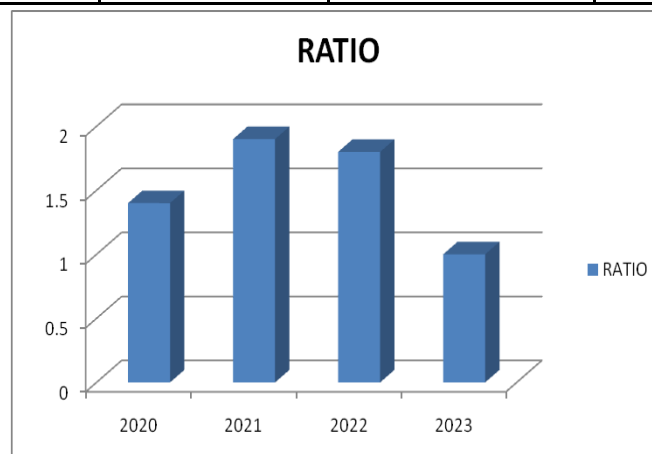
Limitations Of The Study

1. NOT A SUBSTITUTE OF JUDGEMENT- An examination of fiscal report can't occur of quality choice. It is just a way to achieve ends/results. At last, the choices or judgment are taken by a participated individual or examiner on his/her knowledge and expertise.
2. BASED ON HISTORICAL DATA- Just past data of bookkeeping data is combined into the finance reports, which are dissected. The future cannot be much the same as past. Consequently, the study of fiscal reports can't give a premise to planning, upcoming gauge, foreseeing, and arranging.

4. DATA ANALYSIS & INTERPRETATION

CURRENT RATIO

year	current assets	current liabilities	ratio
2020	85.44	59.82	1.4
2021	153.95	81.59	1.9
2022	234.33	133.08	1.8
2023	201.47	199.7	1



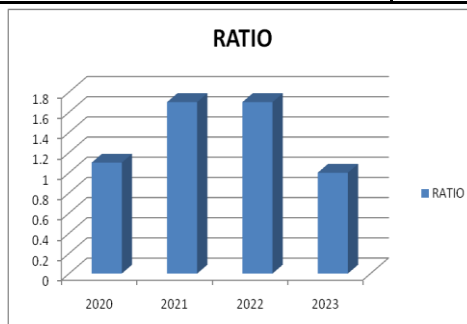
INTERPRETATION:

The perfect current proportion is 2:1

From the above figuring it is induced that present resources for recovering current liabilities are all the additional amid the year 2020 and later begins expanding amid the year 2021 and 2022. However, later it begins diminishing amid the year 2023 which demonstrates that present resources are more than current liabilities.

LIQUID RATIO OR CASH RATIO

Year	Liquid assets	Current liabilities	Ratio
2020	85.44	59.82	1.1
2021	146.53	81.59	1.7
2022	218.81	133.08	1.7
2023	180.78	199.7	1



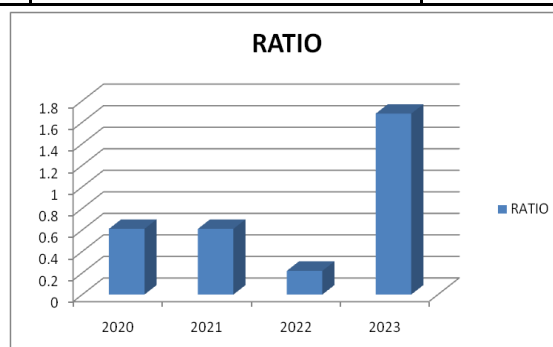
INTERPRETATION:

The perfect fluid proportion is 1:1

From the above said table uncovers that the fluid proportion amid the year 2022-2023 for the most part demonstrates expanding pattern yet in 2023 it begin diminishing. Fluid resources are sufficient to meet the present liabilities. This demonstrates the fluid position of benefits is observed to be exceptionally great.

DEBT EQUITY RATIO

Year	Long period debts	Share hold funds	Ratio
2020	230	374.53	0.61
2021	301.79	495.98	0.61
2022	416.66	1918.28	0.22
2023	677.6	403.22	1.68

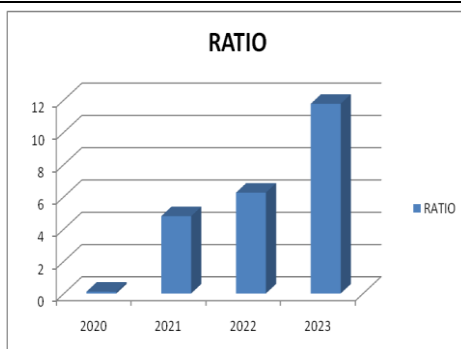


INTERPRETATION

A perfect obligation value proportion is "1" From the above figuring it is seen that obligation value proportion is steady amid the year 2022 and later it begins diminishing amid the year 2022 and finally it expanded in the year 2023. This uncovers the obligation is less when looked at the proprietors finance in the year 2023.

ASSETS TURNOVER RATIO

Year	Net sales	Average totalassets	Ratio
2020	0.89	767.87	0.11
2021	51.8	1105.12	4.79
2022	184.35	3020.52	6.25
2023	371.33	3224.67	11.76



INTERPRETATION

From the above table it is obtained that the ratio during the year 2020, it is rise during the year 2021 and the next year 2022 and 2023 it starts increasing which indicates that there is an efficient utilization of resources of a business concern.

5. CONCLUSION

In the light of findings of the study, the following some important conclusions arc drawn from the available data of the company.

The company has increasing trend of cash and bank balances, which in incline with the increase requirement of working capital for increasing as the percentages of cash and bank balances.

The liquidity position of the company is not adequate.

Management should take the corrective action towards the reduction of operating activities coast and indirect expenses of the company they are burdening the operating and financial risk of the company. The company has to make optimum utilization there funds there is a rise in reserves and surplus to satisfy future and uncertainties.

The overall financial position of the company is not satisfactory due to shortage of funds for long term assets and excessive investment in working capital assets and accumulated losses. Financial performance is also not satisfactory due to the uncontrolled indirect expenses and operating expenses and operating expenses will lead to reduction in the percentage of income and also leads towards the loss.

6. REFERENCES

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