

BOOK- III

TOPIC: TOOLS OF FINANCIAL STATEMENT ANALYSIS

ANALYSIS OF FINANCIAL STATEMENTS IS DONE USING FOLLOWING TOOLS:

1. COMPARATIVE STATEMENTS
2. COMMON SIZE STATEMENTS
3. RATIO ANALYSIS
4. CASH FLOW STATEMENT

IN THIS PRESENTATION , WE WILL
UNDERSTAND THE **CONCEPT,**
FORMAT AND PREPARATION OF:

COMPARATIVE STATEMENTS
COMMON SIZE STATEMENTS

1ST TOOL OF FINANCIAL

ANALYSIS:

COMPARATIVE

STATEMENTS

COMPARATIVE STATEMENTS

- A COMPARATIVE STATEMENT IS PREPARED **TO COMPARE A PARTICULAR FINANCIAL STATEMENT WITH PRIOR PERIOD STATEMENTS.**
- PREVIOUS FINANCIAL STATEMENTS ARE PRESENTED ALONGSIDE LATEST FIGURES IN SIDE-BY-SIDE COLUMNS, ENABLING THE USERS TO EASILY TRACK THE COMPANY'S FINANCIAL PERFORMANCE AND POSITION.

TYPES OF COMPARATIVE STATEMENTS

COMPARATIVE BALANCE SHEET

- COMPARATIVE BALANCE SHEET IS THE STUDY OF THE TREND OF THE SAME ITEMS OR COMPUTED ITEMS IN TWO OR MORE BALANCE SHEETS OF THE SAME BUSINESS ENTERPRISE ON DIFFERENT DATES.

COMPARATIVE INCOME STATEMENT

- COMPARATIVE STATEMENT OF PROFIT AND LOSS SHOWS THE OPERATING RESULTS FOR MORE THAN ONE ACCOUNTING PERIOD SO THAT CHANGES IN ABSOLUTE AMOUNTS AS WELL AS IN TERMS OF PERCENTAGES MAY BE KNOWN.

FORMAT OF A COMPARATIVE STATEMENT

PARTICULARS	NOTE NO.	PREVIOUS YEAR FIGURES	CURRENT YEAR FIGURES	ABSOLUTE CHANGE (INCREASE OR DECREASE)	PROPORTIONATE CHANGE (%)
		A	B	$C = B - A$ i.e. current year figures minus previous year figures	$D = C/A \times 100$ i.e. absolute change divided by previous year figure and then multiplied by 100.

EXPLANATION OF FORMAT OF COMPARATIVE STATEMENT

- **COLUMN 1:** PARTICULARS- : ITEMS OF BALANCE SHEET OR PROFIT AND LOSS ARE WRITTEN AS PER GUIDELINES OD SCHEDULE III.
- **COLUMN 2:** NOTE NO.- : NOTE NO. AS GIVEN IN THE QUESTION IS WRITTEN
- **COLUMN 3:** AMOUNTS OF PREVIOUS YEAR'S BALANCE SHEET OR INCOME STATEMENT ARE WRITTEN
- **COLUMN 4:** AMOUNT OF CURRENT YEAR'S BALANCE SHEET OR INCOME STATEMENT ARE WRITTEN

- **COLUMN 5:** ABSOLUTE CHANGE--: INCREASE OR DECREASE IN AMOUNTS BETWEEN PREVIOUS YEAR AND CURRENT YEAR IS CALCULATED.

ABSOLUTE CHANGE = CURRENT YEAR AMOUNT - PREVIOUS YEAR AMOUNT

NOTE: THIS ABSOLUTE CHANGE CAN BE POSITIVE OR NEGATIVE. IN CASE, CURRENT YEAR'S FIGURE HAS DECREASED, THEN THE ABSOLUTE CHANGE IS NEGATIVE AND IS SHOWN IN BRACKETS.

- **COLUMN 6: PERCENTAGE CHANGE-**: EACH ABSOLUTE CHANGE IS EXPRESSED IN THE FORM OF PERCENTAGE.

$$\% \text{ CHANGE} = \frac{\text{ABSOLUTE CHANGE} \times 100}{\text{AMOUNT OF PREVIOUS YEAR}}$$

PARTICULARS	PREVIOUS YEAR	CURRENT YEAR	ABSOLUTE CHANGE	% CHANGE
Example:				
Fixed assets	5,000	6,000	1,000 (i.e 6,000-5,000)	20% (i.e 1,000/5,000x100)
Current assets	5,000	4,000	(1000) (i.e. 4000-5000)	(20%) (i.e. 1000/5000x100)

COMPARATIVE BALANCE SHEET

COMPARATIVE BALANCE SHEET

as at.....

particulars	Note No.	Previous year	Current year	Absolute change	%change
I: <u>Equity and liabilities</u>					
<u>Shareholder's funds</u>					
•Share capital					
•Reserves and surplus					
<u>Non current liabilities</u>					
•Long term borrowings					
•Long term provisions					
<u>Current liabilities</u>					
•Short term borrowings					
•Trade payables					
•Other CL					
•Short term provisions					
TOTAL					

particulars	Note No.	Previous year	Current year	Absolute change	% change
II: ASSETS <u>NON CURRENT ASSETS</u> •FIXED ASSETS ➤TANGIBLE ASSETS ➤INTANGIBLE ASSETS •NON CURRENT INVESTMENTS •LONG TERM LOANS & ADVANCES <u>CURRENT ASSETS</u> •CURRENT ASSETS •INVENTORIES •TRADE RECEIVABLES •CASH & CASH EQUIVALENTS •SHORT TERM LOANS & ADVANCES •OTHER CURRENT ASSETS <p style="text-align: right;">TOTAL</p>					

**COMPARATIVE
STATEMENT
OF PROFIT AND LOSS**

COMPARATIVE STATEMENT OF PROFIT AND LOSS for the years ended.....

particulars	Note No.	Current year	Previous year	Absolute change	% change
REVENUE FROM OPERATIONS					
OTHER INCOME					
TOTAL REVENUE					
EXPENSES:					
• COST OF MATERIAL CONSUMED					
• PURCHASE OF STOCK IN TRADE					
• CHANGES IN INVENTORIES					
• EMPLOYEES BENEFIT EXPENSES					
• FINANCE COSTS					
• DEPRECIATION & AMORTISATION					
• OTHER EXPENSES					
TOTAL EXPENSES					
PROFIT BEFORE TAX					
LESS : TAX					
PROFIT AFTER TAX					

**2ND TOOL OF
FINANCIAL ANALYSIS
COMMON SIZE STATEMENTS**

COMMON SIZE STATEMENT

- THE STATEMENTS IN WHICH AMOUNTS OF INDIVIDUAL ITEMS OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS ARE CONVERTED INTO PERCENTAGE TO SOME COMMON BASE.
- THIS IS ALSO KNOWN AS VERTICAL ANALYSIS.
- THESE STATEMENTS ARE CALLED 100% STATEMENTS AS ALL ITEMS ARE EXPRESSED AS % OF THE BASE ITEM.

TYPES OF COMMON SIZE STATEMENTS

COMMON SIZE BALANCE SHEET

- TOTAL OF ASSETS OR TOTAL OF LIABILITIES IS TAKEN AS BASE
- EACH ASSET AND EACH LIABILITY IS EXPRESSED AS PERCENTAGE TO TOTAL OF BALANCE SHEET.

COMMON SIZE STATEMENT OF PROFIT AND LOSS

- REVENUE FROM OPERATIONS IS TAKEN AS BASE.
- EACH ITEM OF PROFIT AND LOSS STATEMENT IS EXPRESSED AS PERCENTAGE OF REVENUE FROM OPERATIONS.

COMMON SIZE STATEMENT OF PROFIT AND LOSS

PARTICULARS	N O T E N O .	ABSOLUTE AMOUNT PREVIOUS YEAR	ABSOLUTE AMOUNT CURRENT YEAR	% OF REVENUE FROM OPERATIONS OF PREVIOUS YEAR	% OF REVENUE FROM OPERATIONS OF CURRENT YEAR
		A	B	$\frac{A}{\text{REVENUE}} \times 100$	$\frac{B}{\text{REVENUE}} \times 100$

COMMON SIZE BALANCE SHEET

PARTICULARS	N O T E N O .	ABSOLUTE AMOUNT PREVIOUS YEAR	ABSOLUTE AMOUNT CURRENT YEAR	% OF BALANCE SHEET TOTAL OF PREVIOUS YEAR	% OF BALANCE SHEET TOTAL OF CURRENT YEAR
		A	B	$\frac{A}{\text{TOTAL OF BALANCE SHEET}} \times 100$	$\frac{B}{\text{TOTAL OF BALANCE SHEET}} \times 100$

EXPLANATION OF FORMAT OF COMPARATIVE STATEMENT

- **COLUMN 1:** PARTICULARS- : ITEMS OF BALANCE SHEET OR PROFIT AND LOSS ARE WRITTEN
- **COLUMN 2:** NOTE NO.- : NOTE NO. AS GIVEN IN THE QUESTION IS WRITTEN
- **COLUMN 3:** AMOUNTS OF PREVIOUS YEAR'S BALANCE SHEET OR INCOME STATEMENT ARE WRITTEN
- **COLUMN 4:** AMOUNT OF CURRENT YEAR'S BALANCE SHEET OR INCOME STATEMENT ARE WRITTEN

- **COLUMN 5**: % OF ITEMS OF PREVIOUS YEAR
IN CASE OF INCOME STATEMENT: % RELATION OF DIFFERENT ITEMS OF STATEMENT OF PROFIT AND LOSS OF THE PREVIOUS YEAR TO REVENUE FROM OPERATIONS IS CALCULATED

IN CASE OF BALANCE SHEET: % RELATION OF DIFFERENT ITEMS OF BALANCE SHEET OF THE PREVIOUS YEAR TO TOTAL OF BALANCE SHEET IS CALCULATED

- **COLUMN 6:** % OF ITEMS OF CURRENT YEAR
IN CASE OF INCOME STATEMENT: % RELATION OF DIFFERENT ITEMS OF STATEMENT OF PROFIT AND LOSS OF THE CURRENT YEAR TO REVENUE FROM OPERATIONS IS CALCULATED
IN CASE OF BALANCE SHEET: % RELATION OF DIFFERENT ITEMS OF BALANCE SHEET OF THE CURRENT YEAR TO TOTAL OF BALANCE SHEET IS CALCULATED

COMMON SIZE BALANCE SHEET

as at.....

Particulars	Note No.	Previous year	Current year	% of balance sheet total previous year	% of balance sheet total current year
I: <u>Equity and liabilities</u>					
<u>Shareholder's funds</u>					
•Share capital					
•Reserves and surplus					
<u>Non current liabilities</u>					
•Long term borrowings					
•Long term provisions					
<u>Current liabilities</u>					
•Short term borrowings					
•Trade payables					
•Other CL					
•Short term provisions					
TOTAL					

Particulars	Note No.	Previous year	Current year	% of balance sheet total previous year	% of balance sheet total current year
II: ASSETS <u>NON CURRENT ASSETS</u> •FIXED ASSETS ➤TANGIBLE ASSETS ➤INTANGIBLE ASSETS •NON CURRENT INVESTMENTS •LONG TERM LOANS & ADVANCES <u>CURRENT ASSETS</u> •CURRENT ASSETS •INVENTORIES •TRADE RECEIVABLES •CASH & CASH EQUIVALENTS •SHORT TERM LOANS & ADVANCES •OTHER CURRENT ASSETS <p style="text-align: right;">TOTAL</p>					

COMMON SIZE STATEMENT OF PROFIT AND LOSS for the years ended.....

Particulars	Note No.	Previous year	Current year	% of revenue Previous year	% of revenue current year
REVENUE FROM OPERATIONS					
OTHER INCOME					
TOTAL REVENUE					
EXPENSES:					
• COST OF MATERIAL CONSUMED					
• PURCHASE OF STOCK IN TRADE					
• CHANGES IN INVENTORIES					
• EMPLOYEES BENEFIT EXPENSES					
• FINANCE COSTS					
• DEPRECIATION & AMORTISATION					
• OTHER EXPENSES					
TOTAL EXPENSES					
PROFIT BEFORE TAX					
LESS : TAX					
PROFIT AFTER TAX					