

UNIT- III

ANALYSIS OF FINANCIAL STATEMENTS

Analysis of financial statements- Financial Ratio Analysis, Cash flow (as per Accounting standard 3) and Fund flow statement analysis.

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UNIT 3

ANALYSIS OF FINANCIAL STATEMENTS

3.1 Introduction: Financial statements refer to formal and original statements prepared by business concern to disclose its financial information. AICPA (American institute of certified public accountants) says “financial statements are prepared for the purpose of presenting a periodical review or report on the progress by the management and deal with (i)the status of investments in the business and (ii)the results achieved during the period under review”.

Ratio Analysis:

A ratio is a mathematical relationship between two items expressed in a quantitative form.

Ratio can be defined as “relationship expressed in quantitative terms, between figure which have caused and effect relationship (or) which are connected with each other in some manner (or) the other”.

Net Profit Ratio:

There ratio is called net profit to sales ratio. It is a measures of management efficiency in operating the business successful from the owner’s point of view.

Return on investment

It is otherwise called as return on capital employed. Return on investment is used to measure the operational and managerial efficiency.

$$\text{ROI} = (\text{Operating profit/ Capital employed}) \times 100$$

Cash Flow Statement

A cash flow statement is a statement which portrays the changes in the cash position between two accounting period.

Uses of cash flow statement

- Cash flow statement facilities to prepare sound financial policies.
- It helps in taking loan from banks and other financial institution.

Limitations of cash flow analysis.

It is a total of short term financial analysis only.

It deals with cash transaction.

Benefits of cash flow statement?

- ✓ Historical analysis as guide to fore casting
- ✓ Effective cash management
- ✓ Formulation of financial policies
- ✓ Preparation of cash budget.
- ✓ Liquidity position

Fund flow statement

Fund flow is change in the working capital. Funds flow statement measures and presents in an analytical manner the summarized version of the numerous flows of funds for a specified period.

Importance of funds flow statement?

- i. It shows how the funds are obtained and used during a period.
- ii. It can be compared with the relevant budgets to assessors the usage of funds as per plan.
- iii. Work capital and the causes for changes in working capital are high lighted.
- iv. A detailed analysis of sources of fund in the part acts as a guide for obtained funds for future requirements.

3.2 Various techniques or tools of financial statement analysis

Techniques or Tools of financial statement analysis: The history of financial statement analysis is traced back to the beginning of 20th century. The analysis was started in western countries for the use of credit analysis. Till 1914, financial institutions used to rely on the facts of financial statements. But over a period of time, the need for analysis was felt and a number of techniques were invented and made use of for the purpose of analysis.

The most important techniques of analysis and interpretation of financial statements are listed below:

- Ratio analysis;
 - Cash flow analysis;
 - Funds flow analysis;
 - Comparative financial statements;
 - Common measurement or size statements;
 - Net working capital analysis;
 - Trend analysis
- i. **Ratio analysis:** An analysis of financial statements based on ratios is known as ratio analysis. A ratio is a mathematical relationship between two or more item taken from the financial statements. Ratio analysis is the process of computing, determining, and presenting the relationship of items. It also includes comparison and interpretation of ratios and using them as basis for the future projections. Ratio analysis is helpful to management and outsiders to diagnose the financial health of a business concern. It helps in measuring the profitability, solvency, and activity of a firm.
 - ii. **Cash flow analysis:** Cash flow analysis depicts the inflows and outflows of cash. Cash flow statement is the device for such analysis. It highlights causes which bring changes in cash position between two balance two balance sheet dates.

- iii. **Funds flow analysis:** Funds flow statement signifies the sources and applications of funds. The term 'funds' refers to working capital. Funds flow analysis clearly shows internal and external sources of working capital and the way funds have been used. Funds flow is derived from analysis of changes which have taken place in assets and equities between two balance sheet dates.
- According to Foulke "a statement of sources and application of funds is a technical device designed to analyze the changes in financial position of a business concern between two periods".
- Funds flow analysis is helpful in judging credit worthiness, financial planning and budget preparation.
- iv. **Comparative financial statements:** This is yet another technique used in financial statement analysis. These statements summarize and present related data for a number of years, incorporating there in changes (absolute and relative) in individual items of financial statements. These statements normally comprise comparative balance sheets, comparative profit and loss account, comparative statements of change in total capital as well as in working capital. These statements help in making inter – period and inter – firm comparison and also highlights the trends in performance efficiency, and financial position.
- v. **Common size statements:** Common size statements indicate the relationship of various items with some common items, (expressed as percentage of the common item). In the income statements, the sales figure is taken as basis and all other figures are expressed as percentage of sales. Similarly, in the balance sheet the total assets and liabilities is taken as base and all other figures are expressed as percentage of this total.
- The percentages so calculated are compared with corresponding percentages in other periods or other firms and meaningful conclusions are drawn. Generally, a common size income statement and common size balance sheet is prepared.
- vi. **Net working Capital Analysis:** Working capital statement or schedule of changes in working capital is prepared to disclose net changes in working capitals on two specific dates (generally two balance sheet dates). It is prepared from current assets and current liabilities on the specified dates to show net increase or decrease in working capital.
- vii. **Trend analysis:** 'Trend' signifies a tendency and as such the review and appraisal of tendency in accounting variables are nothing but trend analysis. Trend analysis is carried out by calculating trend ratios (percentage) and / or by plotting the accounting data on graph paper or chart. Trend analysis is significant for forecasting and budgeting. Trend analysis discloses the changes in financial and operating data between specific period.

3.3 Difference between fund flow statement and cash flow statement:

The following are the main points of difference between Cash and Fund Flow Statement:

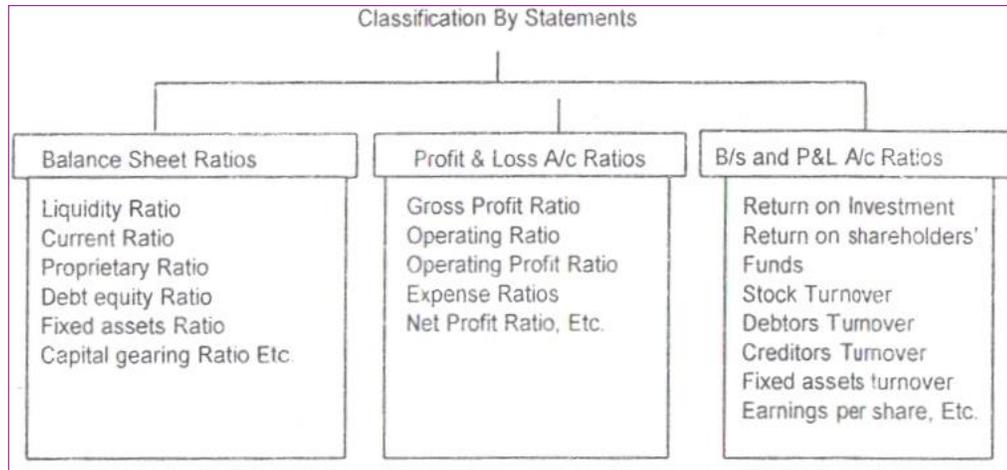
- i. **Heading:** When cash flow is calculated the heading is “Cash Flow statement” whereas the heading for Fund Flow is ‘Fund Flow Statement.
- ii. **Objective:** Cash Flow Statement refers to change in working capital.
- iii. **Scope:** Cash flow statement has narrow coverage cash fund whereas fund flow statement is wider term fund = working capital.
- iv. **Adjustment:** While preparing cash flow statement due weightage is given to outstanding and prepaid income and expenses but in Fund Flow Statement no adjustment is needed for outstanding expenses and prepaid expenses.
- v. **Preparation of Schedule of Change in Working Capital:** For calculating Fund Flow Statement, it is always necessary to prepare change in working capital but for cash flow statement no need to prepare schedule of change in working capital.
- vi. **Opening and Cash Balance:** Cash Flow Statement always prepared by opening cash balance and ends with cash closing balance whereas these balance are not shown in fund – flow statement only these are shown in schedule of change in working capital.
- vii. **Cash from Operation:** For calculating cash flow statement, in general cash generated from operation is calculated where as Fund Flow Statement Fund from operation is calculated.
- viii. **Increase or Decrease in Working Capital:** Calculating of Decrease or increase is always shown in fund flow statement but the same is not shown cash flow statement.
- ix. **Analysis:** Cash flow statement is a short – term tool for financial analysis and is useful for cash planning. Fund flow statement is very effective for long –term financial analysis.

3.4 Classification of Ratios

Ratios are classified in several ways. Different approaches are used for classifying ratios. There is no uniformity in classification by different experts. They have adopted different stand points for classifying ratios various groups. Some of the classifications are discussed below:

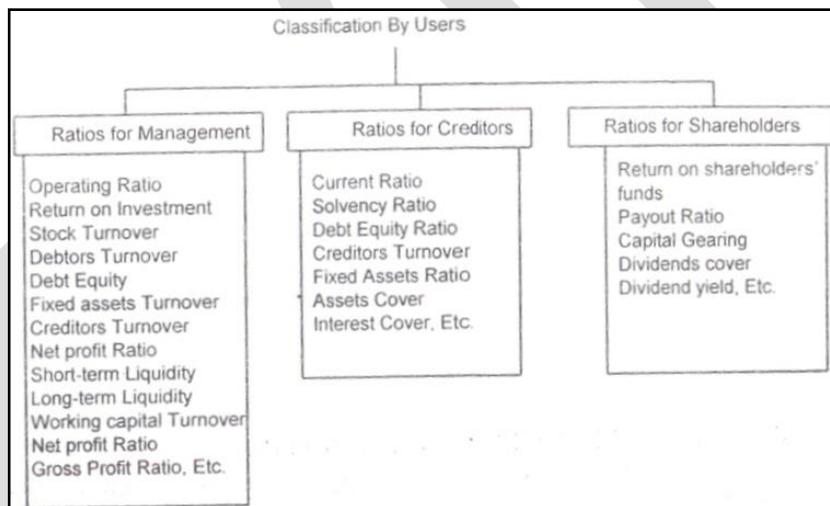
(a) Classification of ratios by statements:-

Under the method, ratios are classified on the basis of statements from which the information is obtained for calculating the ratios. The only statements which provide information are i.e., balance sheet and profit and loss account. The following are included in this classification.



(b) Classification by Users

Under this classification ratios are grouped on the basis of the parties who are interested in making use of the ratios. The following is the classification on this basis.



(c) Classification by Relative Importance

This classification is being adopted by the British Institute of Management, where there are three types of ratios:

1. Primary ratios: They are also known as explanatory ratios which include:

- return on capital employed
- assets turnover
- Profit ratios

2. Secondary performance ratios:

- Working capital turnover
- Stock to current assets
- Current assets to fixed assets
- Stocks to fixed assets
- Fixed assets to total assets

3. Secondary credit ratios:

- Creditors turnover
- Debtors turnover
- Liquid ratio
- Current ratio
- Average collection period

4. Growth ratios:

- growth rate in sales
- growth rate in net assets

The above list is not exhaustive; other relevant ratios can be added to each category.

(d) Classification of Ratios by Purpose/Function

The basis for classification under this head is the purpose for which the ratios are calculated. Generally ratios are used for the purpose of assessing profitability, activity or operating efficiency and financial position of a concern. Based on the purpose the ratios are classified as profitability ratios, turnover ratios and financial ratios or solvency ratios.

Calculate Gross Profit Ratio from the following figures:

	RS
Sales	10,00,000
Sales Returns	1,00,000
Opening stock	2,00,000
Purchases	6,00,000
Purchase returns	1,50,000
Closing stock	65,000

Solution:

$$\text{Gross Profit Ratio} = \text{GP/Sales} * 100$$

Gross Profit is ascertained by preparing Trading Account.

Trading Account

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To opening Stock		2,00,000	By Sales	10,00,000	
To Purchase			Less: Returns		
Less Return				<u>1,00,000</u>	
To Gross Profit	6,00,000		Net sales		9,00,000
	<u>1,50,000</u>	4,50,000	By Closing stock		6,50,000
		3,15,000			
		-----			-----
		9,65,000			9,65,000

Gross Profit ratio = $\frac{GP}{Sales} \times 100$

From the following details of a business concern calculate net profit ratio.

	Rs
Sales	3,50,000
Cost of goods sold	1,50,000
Administration exp.	50,000
Selling expenses	10,000

From the following details you are required to ascertain net profit and calculate net profit ratio.

	Rs.
Sales	5,40,000
Sales returns	40,000
Gross profit	3,00,000
Income from investments	40,000
Loss on sale of plant	30,000
Operating expenses	1,20,000
Provision for tax	50,000

Solution:

(a) Net Profit Ratio =

$$\begin{aligned} \text{Net profit} &= \text{Sales} - \text{Cost of goods sold} - \text{Administration expenses} - \text{Selling expenses} \\ &= 3,50,000 - 1,50,000 - 50,000 - 10,000 \\ &= \text{Rs. } 1,40,000 \end{aligned}$$

$$\text{Net profit ratio} = \text{NP/Sales} * 100$$

(b) Net profit is ascertained by preparing P & L A/C

Profit & Loss Account

Particulars	Rs.	Particulars	Rs.
To Operating expenses		By Gross Profit b/d	3,00,000
To loss on sale of plant	1,20,000	By Income from investments	
To Provision for tax			40,000
To Net profit	30,000		
	50,000		
	1,40,000		

	3,40,000		-----
			3,40,000

$$\text{Net profit Ratio} = \text{NP/Sales} * 100$$

$$\begin{aligned} \text{Net sales} &= \text{Sales} - \text{Sales returns} \\ &= 5,40,000 - 40,000 = \text{Rs. } 5,00,000 \end{aligned}$$

Anil enterprises present you the following income statement and request you to calculate (1) operating ratio; (3) operating profit ratio (4) gross profit ratio; (5) net profit ratio.

Profit and Loss Account of X Ltd., is given below

Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Opening stock	2,00,000	By Sales	16,00,000
To Purchase	12,00,000	By Closing stock	3,20,000
To Administration expenses	1,20,000	By Dividend	4,000
To Selling expenses	80,000		
To Financial expenses	40,000		
To Loss on sale of assets	5,000		
To Net profit	2,79,000		
	19,24,000		19,24,000

Calculate the profitability ratios

Solution:

It is appropriate to redraft the profit and Loss Account given before calculating profitability ratios:

Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Opening stock	2,00,000	By Sales	16,00,000
To Purchase	12,00,000	By Closing stock	3,20,000
To Gross profit c/d	5,20,000		
	19,20,000		19,20,000
To Administration expenses	1,20,000	By Gross Profit b/d	5,20,000
To Selling expenses	80,000		
To Operating profit c/d	3,20,000		
	5,20,000		5,20,000
To Finance expenses	40,000	By Operating Profit b/d	3,20,000
To Loss on sale of assets	5,000	By Dividend received	4,000
To Net Profit c/d	2,79,000		
	3,24,000		3,24,000

Profitability Ratios

(1) Gross profit ratio =

(2) Net profit ratio =

Ganesh Bros. Sells goods on cash and credit terms and also purchased goods on cash and credit terms. The following particulars are obtained from their books:

	Rs
Total sales	5,00,000
Cash sales	40,000
Sales returns	20,000
Debtors at the end	80,000
Bills receivable at the end	20,000
Reserve for doubtful debts	1,000
Total Purchases	3,00,000
Cash Purchases	50,000
Purchase returns	10,000
Creditors at the end	60,000
Bills payable at the end	20,000
Reserve for discount on creditors	2,000
Opening stock	50,000
Closing stock	40,000
Gross profit	1,00,000
Fixed assets	10,00,000

Calculate activity ratios (turnover ratios)

Solution:

Activity ratios (or) Turnover Ratios

Note: Reserve for doubtful debts, reserve for discount on creditors are not relevant for any ratio and should be ignored.

3.5 Profitability ratio:- Profit and Loss Account of X Ltd. is given below.

Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Opening Stock	2,00,000	By Sales	16,00,000
To Purchases	12,00,000	By Closing Stock	3,20,000
To Administration Expenses	1,20,000	By Dividend	4,000
To Selling Expenses	80,000		
To Financial Expenses	40,000		
To Loss on sale of assets	5,000		
To Net Profit	2,79,000		
	19,24,000		19,24,000

Solution:-

Profit & Loss Account

Particulars	Rs.	Particulars	Rs.
To Opening Stock	2,00,000	By Sales	16,00,000
To Purchases	12,00,000	By Closing Stock	3,20,000
To Gross Profit	5,20,000		
	19,20,000		19,20,000
To admin. Expenses	1,20,000	By Gross profit	5,20,000
To Selling Expenses	80,000		
To Operating Profit	3,20,000		
	5,20,000		5,20,000
To Financial Expenses	40,000	By Operating Profit	3,20,000
To Loss on sale of Asset	5,000	By Dividend Received	4,000
To Net Profit	2,79,000		
	3,24,000		3,24,000

Profitability Ratio:-

(1) Gross Profit ratio =

(2) Net Profit Ratio =

(3) Operating Profit Ratio =

Cost of Sales = Sales – Gross Profit

= 16,00,000 – 5,20,000

= 10,80,000

(4) Administration Expenses =

(5) Selling expenses ratio =

(6) Financial expenses ratio =

3.6 FUND FLOW STATEMENT

The following balance sheet of Malar industries as on 1989 and 90 on Dec 31.

Balance sheet

Liabilities	89	90	Asset	89	90
7% redeemable pref share	-	-	Fixed asset (-) dep	41000	40000
				11000	15000
				30000	25000
Equity share	40000	40000	Drs	20000	24000
General reserve	2000	2000	Stock	30000	35000
Profit and loss	1000	1200	Prepaid exp	300	500
Debetries	6000	7000	Cash	1200	3500
Creditors	12000	11000			
Proposed divider	5000	9800			
Bank over draft	12500	6800			
	81500	88000		81500	88000

Prepare

- ✓ Statement of changing in working capital
- ✓ A statement of sources and application of funds.

MALAR INDUSTRIES LTD

Statement of working capital for yr 1990

Particulars	1989	1990	Inc Rs.	Dec Rs.
CA				
Drs	20000	24000	4000	-
Stock	30000	35000	5000	-
Prepaid exp	300	500	200	-
Cash	1200	3500	2300	-
Total(A)	51500	3500	2300	-
CL:				
Crs	12000	11000	1000	-
Provision tax	3000	4200	-	1200
Proposed divid	5000	5800	-	800
Bank over draft	12500	6800	5700	
Total (B)	32500	27800		
Working capital				
A-B	19000	35200	-	-
Incr. in W.C.	16200	-	-	16200
	35200	35200	18200	18200

Statement of Malar Industries

Particulars	Rs.	Rs.
Sources of fund	4200	
Funds from opel		
Issued 7% shares	10000	
Issued of deb	1000	
Sales of fixed asset	1000	
Total sources (A)		16200

Adjusted Profit and Loss Account

To deprecation	4000	By Bal c/d	1000
To bal. c/d	1200	By FFo	4200
	5200		5200

3.7 CASH FLOW STATEMENT

As certain cash flow statement of the year 1992 from the following balance sheet.

Liabilities	1998	1999	Asset	1988	1999
Share capital	500 000	500 000	Building	300 000	35 000
8% deb	200 000	200 000	Dep	20 000	50 000
General Reserve	100 000	140 000	Machinery	200 000	240 000
Profit and Loss account	50 000	120 000	Dep	30 000	55000
Trade crs	40 000	70 000	Closing stock	140 000	260 000
Bills pay	30 000	20 000	Trade drs	200 000	300 000
Out standing exp	10 000	12 000	Cash	140 000	67 000
	930 000	1062 000		930 000	1062 000

Solution:

Adjusted Profit and Loss Account

To transfer			
General reserve	40,000	By bal c/d	50 000
To deprecation		By FFO	165 000
Building	30 000		
Machine	25 000		
To bala c/d	120 000		
	215 000		215 000

Statement of cash flow statement

Funds from operation		165 000
(+) Inc. in CL		
Trare crs	30 000	
Out standing exp	2000	32 000
		197 000
(-) dec. in CL		
Bills payable	10 000	
Inc. in CA		
Closing stock	120 000	
Trade drs	100 000	230 000
Cash out flow on account of operation		-33000

Prepare a Funds Flow Statement from the following data.

Balance Sheet

Liabilities	31.12.96	31.12.97	Assets	31.12.96	31.12.97
	Rs.	Rs.		Rs.	Rs.
Equity Capital	5,000	5,300	Cash	2,000	2,500
Long term Debt	1,400	1,300	Accounts Receivable	2,400	2,700
Retained Earnings	2,800	3,700	Inventories	3,100	3,200
Accumulated			Other Assets	800	700
Depreciation	2,100	2,500	Fixed Assets	5,000	5,800
Accounts Payable	2,000	2,100			
	13,300	14,900		13,300	14,900

Additional Information:

- Fixed assets costing Rs. 1,200 were purchased for cash.
- Fixed assets (original cost Rs. 400, accumulated depreciation Rs. 150) were sold at book value.
- Depreciation for the year 1997 amounted to Rs. 550 and duly debited to P & L A/c.
- Reported income for 1997 was Rs. 1,200.

Solution:

Funds Flow Statement for the year ending 31-12-97.

Particulars	Rs.	Rs.
Sources of funds:		
Issue of equity shares (5,300 – 5,000)	300	
Sales of fixed assets (W.N.2)	250	
Funds from Operation (W.N.1)	1,750	
Total Sources (A)		2,300
Applications of funds:		
Long term debt repaid (1,400 – 1,300)	100	
Fixed assets purchased	1,200	
Dividend paid (W.N.4)	300	
Total applications (B)		1,600
Increase in working capital (A-B)		700

Note: 'Other assets' is taken as other current assets since fixed are separately given.

Working Notes

W.N.1: Adjusted Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Depreciation on Fixed Assets	550	By Balance b/d	2,800
To Dividend (w.N.4)	300	By Funds from operations	
To Balance c/d	3,700	(Bal. fig.)	1,750
	4,550		4,550

Note: Since P & L A/c balance is not separately given, opening and closing balances of retained earnings are shown in the Adjusted P & L A/c.

W.N.2: Fixed Assets Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	5,000	By Accumulated depreciation A/c	150
To Bank (purchase)	1,200	(Depreciation on asset sold)	
		By Bank (sale)	250
		By Balance c/d	5,800
	6,200		6,200

W.N.3: Accumulated Depreciation A/c.

Particulars	Rs.	Particulars	Rs.
To Fixed Assets A/c.	150	By balance b/d	2,100
(Depreciation on asset sold)		By P & L A/c	
To Balance c/d	2,500	(Current year depreciation)	550
	2,650		2,650

W.N 4: Reconciliation of Profits

	Rs.
Opening Balance retained earnings.	2,800
Add: Reported Income for 1997 (given)	1,200
	4,000
Less: Transfer to any reserve	-
	4,000
Less: Closing Balance of Retained earnings	3,700
Dividend (Balancing figure)	300

Note: Reconciliation of profits can be made, when reported income is separately given, to find a missing figure like 'Dividend'.

3.8 FUND FLOW AND CASH FLOW FORMAT & CASH FLOW STATEMENT FORMAT

FUND FLOW STATEMENT:

STATEMENT OF WORKING CAPITAL

PARTICULARS	YEAR RS	INCREASE	DECREASE
CURRENT ASSET:			
Cash	xxxxxxxx		
Bank	xxxxxxxx.		
Stock	xxxxxxxx		
Sundry Debtors	xxxxxxxx.		
Trading	xxxxxxxx		
Investment	xxxxxxxx		
Prepaid Exp	xxxxxxxx		
Total (A)	xxxxxxxx		
CURRENT LIABILITIES:			
Creditors	xxxxxxxx		
Bills payable	xxxxxxxx		
Outstanding Exp	xxxxxxxx		
Short term Loans	xxxxxxxx		
Bank Over draft	xxxxxxxx		
Total (B)	xxxxxxxx		
Working Capital (A-B)	xxxxxxxx		
Net	xxxxxxxx		
Increase / Decrease	xxxxxxxx		

FUND FLOW STATEMENT FOR THE YR ENDING

SOURCES OF FUNDS	RS	APPLICATION OF FUNDS	RS
Funds from Operation
Issues of shares	Out flow funds of accounts	.....
Issues of Debentures	Repayment of	.....
Sales of fixed assets	Long term loans	.....
Long term loans Borrowed	Redemption of Preferences shares	.....
Non –trading Income	Redemption of	.....
Decrease in Working capital (Bal. fig)	Debentures
	Purchase of Fixed asset
	Tax paid
	Dividend paid
	Increase in
	Wc (Bal fig)

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PARTICULARS	RS	ADJUSTED PROFIT AND LOSS	PARTICULARS	RS
To depreciation on fixed asset
To loss on sale of fixed asset		By bal b/d	.....
To loss on Sale of investment		By profit on sale of fixed asset	.....
To good will Written off		By profit on sale Of investment	.....
To discount on debentures		By income from investment	.....
To provision for tax		By income tax refund	.....
To proposed dividend		By funds from Operation (bal fig).	.....
To Bal c/d
	-----			-----

SOURCES	RS	RS	APPLICATION	RS	RS
OPENING BALANCE			Cash out flow from		*****
Cash			On account		
Bank	****		Operation		
	****		Redemption on Preferences share		*****
		*****			*****
		*			
Operation		*****	Redemption on Debentures		*****
Issues of Shares		*****	Purchase of fixed Asset		*****
Issues of		*****	Repayment of loans		*****
Debentures		*****	Tax paid		*****
Sales of Fixed asset		*****	Dividend paid		*****
Loans borrowed		*****	CLOSING BALANCE		*****
		*****	Cash		*****
		*****	Bank		*****
				=====	*****
		*****			*****
		**			=====

CASH FLOW STATEMENT FOR THE YEAR ENDING			
PARTICULARS		RS	RS
OPENING BALANCES:			
Cash Balances		*****	
Bank Balances		*****	*****
		=====	
ADD: SOURCES OF CASH:			
Issues of shares & Debentures			*****
Long term loans borrowed			*****
Sale of fixed asset			*****
CASH FROM OPERATION:		*****	
Profit per P&L a/c		*****	

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	=====	
ADD: Non – cash & non operating exp	*****	
LESS: Non cash & non operating income	*****	
	=====	
ADD: increase in current liabilities and	*****	
Decrease in current asset	*****	
	=====	
	*****	*****
LESS: Increase in CA and decrease in CL	*****	=====
	=====	*****
To cash available	*****	
LESS: APPLICATION OF CASH:	*****	
Redemption of preference	*****	
Shares and debentures	*****	
Purchase of fixed asset	*****	
Payment of fixed asset	*****	*****
	=====	=====
Cash out flow on account of operation		*****
Total application	*****	
CLOSING BALANCE:	*****	
Cash Balances	*****	*****
Bank Balances	*****	*****

3.9 Comparative Statements:

The following are the income statements of jeevan ltd, for the year ending 31st December 1999 and 1998 .you are required to prepare a comparative income statement for the two years.

	31.12.98	31.12.98
	Rs	Rs
Net sales	10,00,000	12,00,000
Cost of goods sold	5,50,000	6,05,000
Operating expenses:		
Administration	80,000	1,00,000
Selling	60,000	80,000
Non operating expenses:		
Interest	40,000	50,000
Income -tax	50,000	80,000

Solution:

	1998	1999	Increase(+) or decrease(-) In 1999 over 1998	
			Amount (Rs)	Percentage (%)
Net Sales	10,00,000	12,00,000	+2,00,000	+20
Less: Cost of goods sold	5,50,000	6,05,000	+55,000	+10
Gross Profit	4,50,000	5,95,000	+1,45,000	+32.22
Operating Expenses:				
Administrative	80,000	1,00,000	+20,000	+25
Selling	60,000	80,000	+20,000	+33.33
Operating Profit (A-B)=C	1,40,000	1,80,000	+40,000	+28.57
Non-Operating Expenses	3,10,000	4,15,000	+1,05,000	+33.87
Interest	40,000	50,000	+10,000	+25
Income tax	50,000	80,000	+30,000	+60
Total non-operating Expenses (D)	90,000	1,30,000	+40,000	+44.44
Net Profit (C-D)	2,20,000	2,85,000	+65,000	+29.55

3.10 Common size statements:

Dhandapani &co ltd, furnishes the following balance sheet for the years 1997 and 1998. prepare common –size balance sheets

Liabilities	1997	1998	Assets	1997	1998
	(Rs)	(Rs)		(Rs)	(Rs)
Share capital	2,00,000	3,00,000	Buildings	4,00,000	4,00,000
Reserves	6,00,000	7,00,000	Machinery	6,00,000	10,00,000
10% debentures	2,00,000	3,00,000	Stock	2,00,000	3,00,000
Creditors	3,00,000	5,00,000	Debtors	2,00,000	2,50,000
Bills payable	1,00,000	80,000	Cash at bank	1,00,000	50,000
Tax payable	1,00,000	1,20,000			
	15,00,000	20,00,000		15,00,000	20,00,000

Solution:

	1997		1998	
	Amount (Rs)	%	Amount (Rs)	%
Current Assets:				
Cash at Bank	1,00,000	6.67	50,000	2.50
Debtors	2,00,000	13.33	2,50,000	12.50
Stock	2,00,000	13.33	3,00,000	15.00
Total Current Assets (A)	5,00,000	33.33	6,00,000	
Fixed assets:				
Buildings	4,00,000	26.67	4,00,000	20.00
Machinery	6,00,000	40.00	10,00,000	50.00
Total Fixed assets (B)	10,00,000	66.67	14,00,000	70.00
Total Assets (A+B)	15,00,000	100.00	20,00,000	100.00
Liabilities				
Capital Creditors	3,00,000	20.00	5,00,000	25.00
Bills Payable	1,00,000	6.67	80,000	4.00
Tax Payable	1,00,000	6.66	1,20,000	6.00
Total Current Liabilities (A)	5,00,000	33.33	7,00,000	35.00
Long term liabilities:				
10% debentures (B)	2,00,000	13.33	3,00,000	15.00

Total Liabilities (A+B)=C	7,00,000	46.67	10,00,000	50.00
Capital & Reserves				
Share Capital	2,00,000	13.33	3,00,000	15.00
Reserves	6,00,000	40.00	7,00,000	35.00
Total Shareholders fund (D)	8,00,000	53.33	10,00,000	50.00
Total Liabilities and Capital (C+D)	15,00,000	100.00	20,00,000	100.00

3.11 Trend Percentage:

The following are the extracts from the income statements of bright ltd; for The 6 year Ending 1999.you are required to calculate trend percentage, taking 1994 as the base year and give two major conclusions you can draw.

Particulars	1994	1995	1996	1997	1998	1999
Sales	300	340	420	480	520	600
Cost of goods sold	180	204	256	287	300	330
Office expenses	40	42	45	50	55	60
Selling expenses	20	25	30	40	50	60
Net profit/loss	60	69	89	103	115	150

Particular	Year end (Rs. In thousands)						Trend analysis Base Year 1994					
	1994	1995	1996	1997	1998	1999	1994	1995	1996	1997	1998	1999
Sales	300	340	420	480	520	600	100	113	140	160	173	200
Less: Cost of Goods Sold	180	204	256	287	300	330	100	113	142	159	167	183
Gross Profit (A)	120	136	164	193	220	270	100	113	137	161	183	225
Office Expenses	40	42	45	50	55	60	100	105	112	125	137	150
Selling Expenses	20	25	30	40	50	60	100	125	150	200	250	300
Total Expenses(B)	60	67	75	90	105	120	100	112	125	150	175	200
Net Profit/Loss (A-B)	60	69	89	103	115	150	100	115	148	172	192	250