

## Chapter- 8

# FINANCIAL STATEMENTS ANALYSIS

### FINANCIAL STATEMENTS OF A COMPANY

Financial statements are the formal reports in a year through which the business firm communicates financial information to its owners and various other stake holders which include– investors, tax authorities, government, employees, etc.

#### Objectives of Financial Statements

- ❖ To provide information about economic resources and obligations of a business
- ❖ To provide information about the earning capacity of the business
- ❖ To provide information about cash flows
- ❖ To judge effectiveness of management
- ❖ Information about activities of business affecting the society
- ❖ Disclosing accounting policies

#### Types of Financial Statements

Financial statements include two statements: Balance sheet and Statement of profit and loss.

#### Balance Sheet

Balance sheet of a company is prepared and presented in the form prescribed in (Revised) Schedule III of the Companies Act, 2013.

**Balance Sheet as at 31st March, 20....**

Particulars	Note No.	Figure as at the end of Current reporting period	Figure as at the end of Previous Reporting period
<b>I. EQUITY AND LIABILITIES</b>			
<b>1) Shareholder's Funds</b>			
(a) Share Capital			
(b) Reserves and Surplus			
(c) Money received against share warrants			
<b>2) Share Application Money Pending Allotment</b>			
<b>3) Non-current Liabilities</b>			
(a) Long-term borrowings			
(b) Deferred tax liabilities (net)			
(c) Other long-term liabilities			
(d) Long-term provisions			
<b>4) Current Liabilities</b>			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
<b>Total</b>			
<b>II. ASSETS</b>			
<b>1) Non-current Assets</b>			
(a) Fixed assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			

(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
<b>2) Current Assets</b>			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			
(f) Other current assets			
Total			

### Statement of Profit and Loss

Form for preparing statement of profit and loss under (Revised) Schedule VI, Part-II of the companies Act 1956.

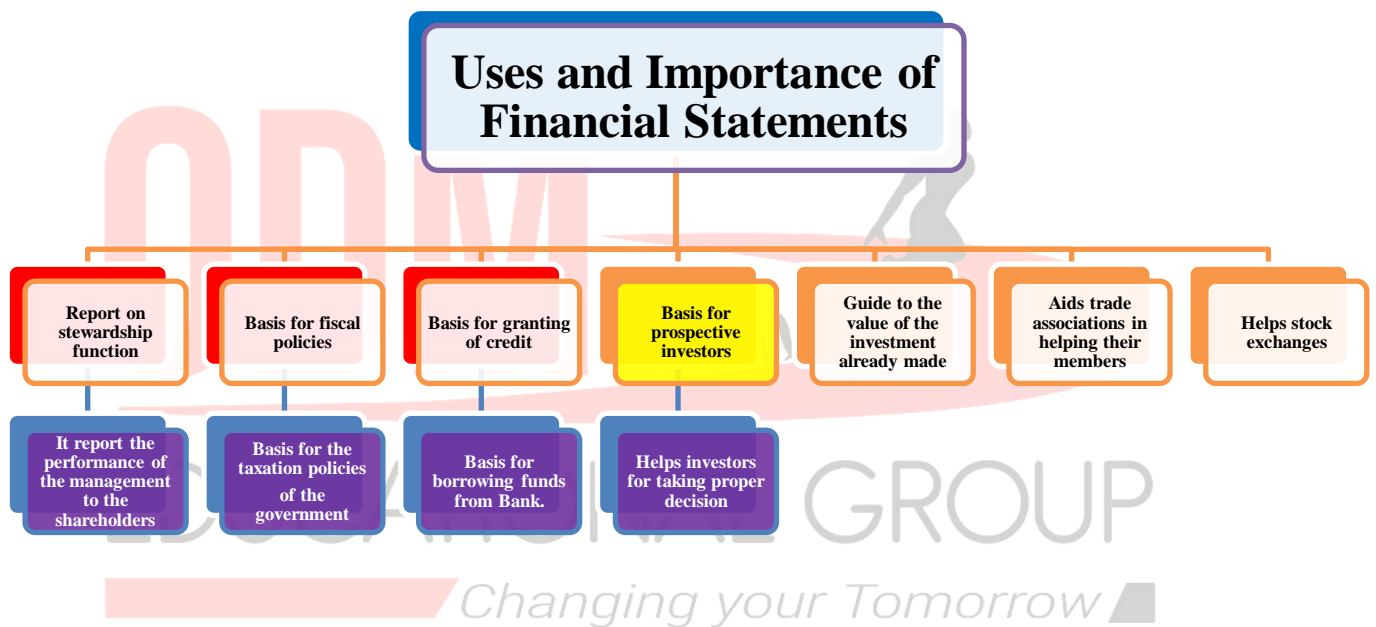
### **Statement of Profit and Loss for the year ended \_\_\_\_\_**

Sl. No.	Particulars	Note No.	Figure as at the end of Current reporting period	Figure as at the end of Previous Reporting period
1	Revenue from operations (i) Sale of products (ii) Sale of services (iii) Other operating revenues			
2	Other income			

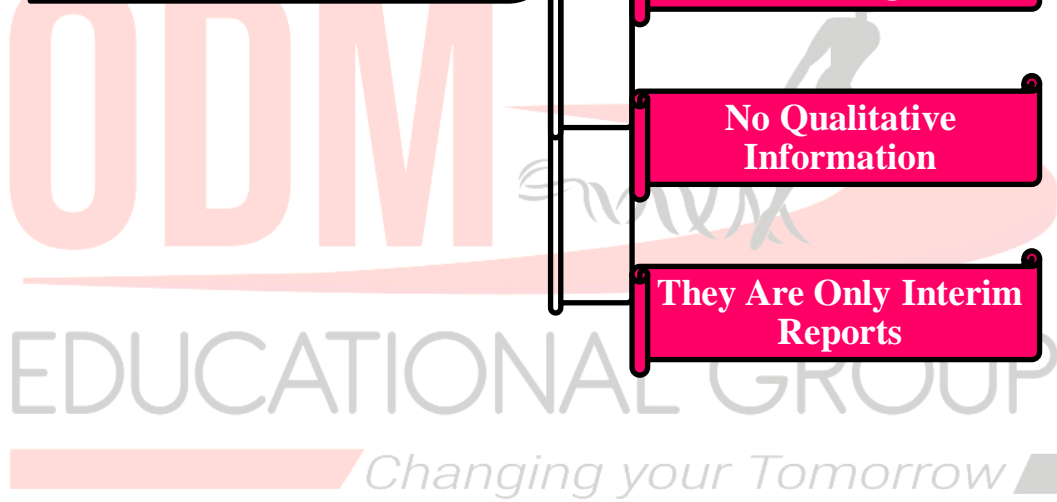
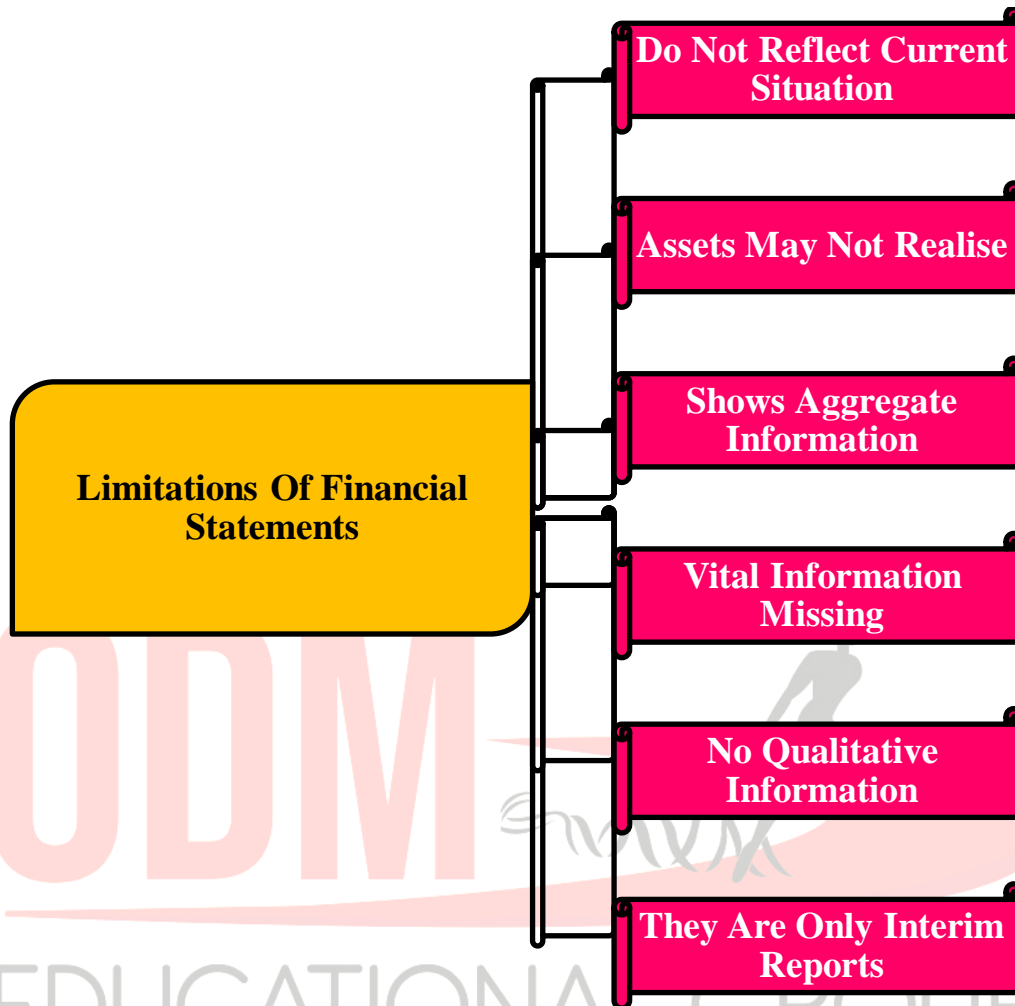
	(i) Interest income (ii) Dividend income, (iii) Net gain/loss on sale of investments, (iv) Other non-operating income			
3	Total Revenue (1+2)			
4	Expenses: Cost of materials consumed Purchases of stock-in-trade Changes in inventories of finished goods work-in-progress and stock-in-trade Employee benefits expense Finance costs Depreciation and amortization expense Other expenses Total expenses			
5	Profit before Exceptional items and tax (3-4)			
6	Exceptional items			
7	Profit before extraordinary items and tax (5-6)			
8	Extraordinary items			
9	Profit before tax (7-8)			
10	Tax expense: (1) Current tax (2) Deferred tax			
11	Profit/(Loss) for the period from continuing operations (9-10)			
12	Profit/(Loss) from discontinuing operations			
13	Tax expense of discontinuing operations			
14	Profit/(Loss) from Discontinuing operations			

	(after tax) (12-13)			
15	Profit/(Loss) for the period (11+ 14)			
16	Earnings per equity share: (1) Basic (2) Diluted			

**Uses and Importance of Financial Statements**



**Limitations of Financial Statements**



## ANALYSIS OF FINANCIAL STATEMENTS

It is the process of simplification of financial informations through analysis, interpretations and generalization.

### Objectives of Financial Analysis

- To assess the current profitability and operational efficiency of the firm
- To ascertain the relative importance of different components of the financial position of the firm.
- To identify the reasons for change in the profitability/financial position of the firm.
- To judge the ability of the firm to repay its debt and assessing the short-term as well as the long-term liquidity position of the firm.

### Tools of Financial Analysis

#### **Comparative Statements**

Comparative statement captures changes in all items of financial statements in absolute and percentage terms over a period of time for a firm or between two firms. Steps involved in its preparation are ;

- List out absolute figures in rupees relating to two points of time.
- Find out change in absolute figures by subtracting the first year from the second year and indicate the change as increase (+) or decrease (–) and put it in column 4.