



## The Need Of Financial Statement Analysis In A Firm/An Orgnization

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### Abstract:

Financial statement analysis play a dominate role in setting the frame watt of managerial decisions through analysis and interpretation of financial statement. This paper discusses about financial ,, strength and weakness of the company by properly establishing relationship between the items of balance shed and profit and loss account. In order to judge the profitability and financial soundness of the company horizontal, and vertical analyze or done. The various technique used in analyzing financial statement included 'comparative statement, common size statement, trend analysis and ratio analysis. The results suggest that the ratio approach is a highly useful tool in financial statement analysis, especially when a set of ratios is used to evaluate a firm's performance.

**Key words:** Financial statement analysis, to evaluate a firm's performance. 'Comparative statement. Common size statement, trend analysis and ratio analysis.

### 1. Introduction:

The basis for financial analysis , planning and decision making is financial information/a business firm has to prepares its financial accounts viz., balance sheet , profit and loss account which provides useful financial information for the purpose of decision making . Financial information is needed to predict. Compare and evaluate the fin's earnings ability. The formers statements viz. profit and loss account shows that operating activities of the concern and the later balance sheet depicts the balance value of the acquired assets and of liabilities at a particular point of time. However these statements don't disclose all of the necessary for ascertaining the financial strengths and weaknesses of an enterprise. it is necessary to analyze the data depicted in the financial statements. The finance manager has certain analytical tools which helps is financial analysis and planning. .

Doron nissim, stephen h. Penman, (2003), Financial Statement Analysis of Leverage and How it Informs About Profitability and Price-to-Book Ratios. Survey of Accounting Studies, Kluwer Academic Publishers.

As per examine by 'Doron Nissim. Stephen H. Penman' on Financial proclamation investigation of Leverage and how it illuminates about gainfulness and cost to book proportions, money related explanation examination that recognizes use that emerges in financing exercises from use that emerges in operations. The examination yields two utilizing conditions. one for getting to back operations and one for obtaining over the span of operations. This examination demonstrates that the budgetary explanation investigation clarifies cross-sectional contrasts in present and future rates of return and additionally cost to-snare proportions, which depend on expected rates of profit for value. This investigation helps in understanding working influence contrasts in productivity in the cross-areas. changes in future productivity from current benefit and legally binding working liabilities from evaluated liabilities. Yating Van, H.W. Chuang,(2010) Financial Ratio Adjustment Process: Evidence from Taiwan and North America,ISSN 1450-2887 Issue 43 (2010)0 Euro Journals Publishing, Inc. 2010

### 2. Financial statements analysis

It is a process of identifying the financial strengths and weaknesses of a firm from the available accounting data and financial statements. The analysis is done by properly establishing the relationship between the items of balance sheet and profit and loss account. The first task of the financial analyst is to determine the information relevant to the decision under consideration from the total information contained in financial statement. The second step is to arrange information in a way to highlight significant relationships. The final step is interpretation and drawing of inferences and conclusions. Thus financial analysis is the process of selection, relating and evaluation of the accounting data or information.

Purpose of financial statements analysis

Financial statements analysis is the meaningful interpretation of 'financial statements 'for panics demanding financial information. It is not necessary

for the proprietors alone. In general, the purpose of financial statements analysis is to aid decision making between the users of accounts

- To evaluate past performance and financial position
- To predict future performance

Tools and techniques of financial analysis:

- Comparative balance sheet
- Common size balance sheet
- Trend analysis
- Ratio analysis
- Comparative balance sheet

Comparative financial statements is a statement of the financial position of a business so designed as to facilitate comparison of different accounting variables for drawing useful inferences. Financial statements of two or more business enter prices may be compared over period of years. This is known as inter firm comparison Financial statements of the particular business enter prires may be compared over two periods of years. This is known inter period comparison

#### *Common size statements*

It facilities the comparison of two or more business entities with a common base .in case of balance sheet, total assets or liabilities or capital can be taken as a common base. These statements are called common measurements or components percentage or 100 percent statements. Since each statement is represented as a %of the total of 100 which in variably serves as the base.

In this manner the announcements arranged to draw out the proportion of every benefit of risk to the aggregate of the monetary record and the proportion of every thing of cost or incomes to net deals known as the basic size articulations.

#### *Pattern investigation*

Even examination of money related explanations can likewise be completed by figuring pattern rates. Pattern rate expresses quite a long while's budgetary information as far as a base year. The base year rises to 100 %, with every single other year expressed in some rate of this base

#### *Proportion investigation*

Proportion investigation is the technique or process by which the relationship of things or gatherings of things in the budgetary proclamations are registered, decided and introduced. Proportion investigation is an endeavor to determine quantitative measures or aides concerning the money related wellbeing and benefit of the business venture. Proportion

investigation can be utilized both in pattern and static examination. There are a few proportions at the examiner yet the gathering of proportions he would incline toward relies upon the reason and the destinations of the investigation.

Bookkeeping proportions are viable apparatuses of examination; they are pointers of administrative and over all operational productivity. Proportions, when appropriately utilized are fit for giving valuable data. proportion examination is characterized as the deliberate utilization of proportions to decipher the money related explanations with the goal that the qualities and shortcomings of a firm and in addition its chronicled execution and current monetary condition can be resolved the term proportion alludes to the numerical or quantitative connection between things factors this relationship can be communicated as:

1. Fraction
2. Percentages
3. Proportion of numbers

These option strategies for communicating things which are identified with each other are, for reason for money related investigation, alluded to as proportion examination. It ought to be seen that processing the proportion does not include any data in the figures of benefit or deals. What the proportions do is that they uncover the relationship in a more important manner in order to empower us to reach inferences from them.

As indicated by look into by the Yating yang and 11.W. Chuang. on 'Monetary Ratio Adjustment Process: Evidence from Taiwan and North America'. measurable legitimacy of the proportion strategy in monetary articulation examination is researched. The outcomes hence recommend that the proportion approach is a valuable instrument in monetary explanation investigation, particularly when an arrangement of proportions is utilized to assess an association's execution. The straightforwardness of this strategy additionally underpins the utilization of proportions in money related basic leadership.

### **3. Money related proportions in perspective of GAAP:**

GAAP is the arrangement of standard systems for recording business exchanges and detailing accounting report passages. The components of GAAP incorporate norms for how to figure income, how to arrange things on a monetary record, and how to ascertain exceptional offer estimations. The models fused into (MAP give general consistency in assumes that are thusly used to ascertain imperative money related proportions that financial specialists and investigators use to assess the organization. Indeed, even agreeable monetary records can be trying to unravel, yet without a framework characterizing every class of section, corporate money related articulations would be basically dark and useless.

There are seven fundamental rule that guide the foundation of the Generally Accepted Accounting Principles. The standards of normality, consistency, perpetual quality and genuineness go towards the urging organizations to utilize the same legitimate bookkeeping hones quarter after quarter in a decent confidence push to demonstrate the genuine money related state of the organization. None remuneration, judiciousness and progression build up rules for how to set up a monetary record, by and large to report the budgetary status of the organization as it is without treating resources in irregular ways that distort the operations of the organization just to balance different sections. The rule of periodicity basic implies that salary to be gotten extra time ought to be recorded as it is booked to be gotten, not in a singular amount in advance.

The brought together arrangement of bookkeeping in this manner has various advantages. Not exclusively does it give a specific level of straightforwardness into an organization's funds. it likewise makes for generally simple examinations between organizations. Subsequently, GAAP empowers venture by helping financial specialists pick shrewdly. GAAP gives America organizations preference over remote ones where financial specialists, unless they have a cozy comprehension of the business, may have a great deal more trouble figuring the potential dangers and prizes of a venture. GAAP applies to U.S.- based enterprises just, however every other real nation has bookkeeping measures set up for their local organizations. Now and again, remote bookkeeping is genuinely like U.S. GAAP, changing in just minor and effectively represented ways. In different cases, the models change fundamentally making direct examinations questionable, best case scenario.

#### 4. Advantages and Limitations of Financial Ratio Analysis

Financial ratio analysis is a useful tool for users of financial statement. It has following advantages:

Focal points

- It improves the money related proclamations.
- It helps in contrasting organizations of various size and each other.
- It helps in drift examination which includes looking at a solitary organization over a period.
- It highlights imperative data in basic frame rapidly .A client can judge an organization by simply taking a gander at few number as opposed to perusing of the entire monetary explanations.

Restrictions

Regardless of convenience, finance.ial proportion examination has a few burdens. Some key faults of budgetary proportion examination are:

- Different organizations work in various enterprises each having distinctive natural conditions, for example, control, showcase structure, and so on. Such factors curve so huge that a correlation of two organizations from various ventures may be deceiving.
- Financial bookkeeping data is influenced by assessments and presumptions. Bookkeeping principles permit diverse bookkeeping arrangements, which disables likeness and subsequently proportion examination is less helpful in such circumstances. • Ratio investigation clarifies connections between past data while clients are more worried about present and future data.

The investigation helps for breaking down the alteration procedure of money related proportions; the model states three impacts which circular segment an association's interior impact, expansive impact, and key administration. It encourages us to clarify

- 1) That a company's budgetary proportions reflect unforeseen changes in the business.
- (2) Active endeavors to accomplish the coveted focus by administration and

(3) An individual association's money related proportion development.

Dialog:

Monetary proclamations investigation is the way toward looking at connections among components of the organization's "bookkeeping articulations" or money related explanations (accounting report, salary articulation, proclamation of income and the announcement of held profit) and making correlations with pertinent data. It is a significant instrument utilized by financial specialists, leasers, monetary investigators, proprietors, administrators and others in their basic leadership handle. The most well known sorts of money related explanations examination curve:

- Horizontal Analysis: monetary data are thought about for at least two years for a solitary organization;
- Vertical Analysis: every thing on a solitary monetary explanation is figured as a • rate of an aggregate for a solitary organization;
- Ratio Analysis: analyze things on a solitary budgetary articulation or look at the connections between things on two monetary proclamations.

Money related proportions examination is the most widely recognized type of budgetary explanations investigation. Monetary proportions delineate connections between various parts of an organization's operations and give relative measures of the company's conditions and execution. Monetary proportions may give intimations and side effects of the money related condition and signs of potential issue regions. It by and large holds no importance unless they are looked at against something else, as past execution, another organization/contender or industry normal. In this way, the proportions of firms in various enterprises, which confront distinctive conditions, are generally difficult to analyze.

Money related proportions can be a critical instrument for entrepreneurs and administrators to gauge their advance toward achieving organization objectives, and toward contending with bigger organizations inside an industry; likewise, following different proportions after some time is an intense approach to recognize patterns. Proportion examination, when performed routinely after some

time, can likewise give assistance independent ventures perceive and adjust to patterns influencing their operations.

Money related proportions are additionally utilized by financiers. Speculators and business experts to survey different traits of an organization's monetary quality or working outcomes, this is another motivation behind why entrepreneurs need to comprehend money related proportions in light of the fact that, all the time, a business' capacity to get financing or value financing will rely upon the organization's budgetary proportions. Money related proportions are ordered by the monetary part of the business which the proportion measures. Liquidity proportions look at the accessibility of organization's money to pay obligation. Productivity proportions measure the organization's utilization of its benefits and control of its costs to create a satisfactory rate of return. Use proportions look at the organization's techniques for financing and measure its capacity to meet budgetary commitments. Productivity proportions measure how rapidly a firm changes over non-money resources for money resources. Market proportions measure financial specialist reaction to owning an organization's stock and furthermore the cost of issuing stock.

#### 5. Conclusion:

Proportion Analysis is a type of Financial Statement Analysis that is utilized to acquire a snappy sign of an association's money related execution in a few key territories. Proportion investigation is utilized to assess connections among money related proclamation things. The proportions are utilized to distinguish inclines after some time for one organization or to look at least two organizations at one point in time. Money related explanation proportion investigation concentrates on three key parts of a business: liquidity, benefit, and dissolvability.

The proportions are sorted as Short-term Solvency Ratios, Debt Management Ratios, and Asset Management Ratios. Productivity Ratios, and Market Value Ratios. Proportion Analysis as an instrument has a few vital elements. The information, which are given by budgetary proclamations, are promptly accessible. The calculation of proportions encourages the examination of firms which contrast in measure. Proportions can be utilized to contrast an association's money related execution and industry midpoints. What's more, proportions can be utilized

as a part of a type of pattern investigation to recognize zones where execution has enhanced or crumbled after some time. Since Ratio Analysis depends on bookkeeping data, its adequacy is restricted by the bends which emerge in budgetary explanations because of such things as Historical Cost Accounting and swelling. Thusly, Ratio Analysis should just be utilized as an initial phase in money related examination, to get a snappy sign of an association's execution and to distinguish territories which should be explored further.

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