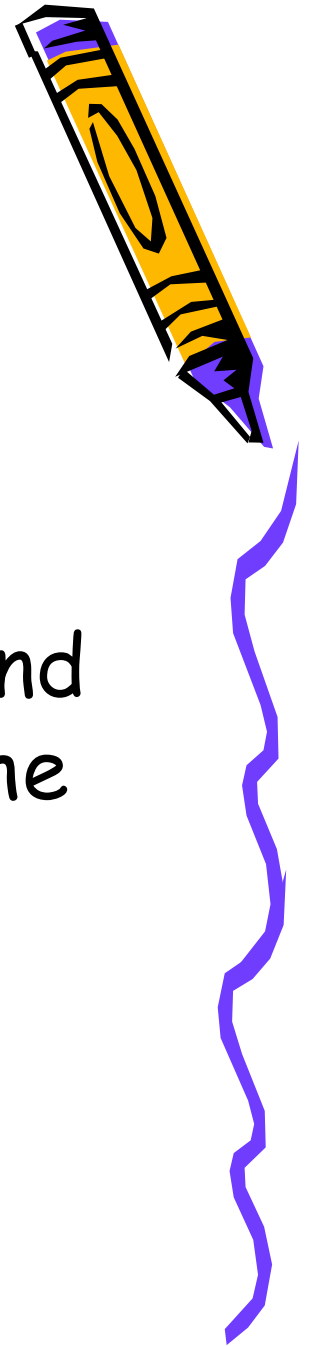
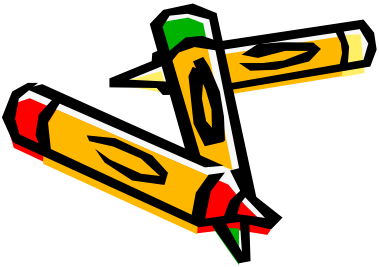


# Analysis of Financial Statements Vertical Financial Statements & Ratio Analysis

By  
Prasanna Tambe  
Chartered Accountant

# Trend analysis

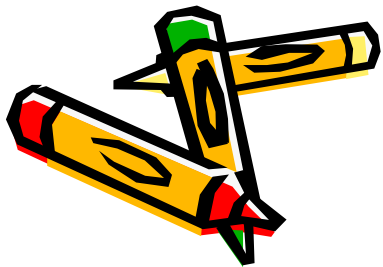
- Determines the trend of various items over a period of time
- Base year considered as 100 & trend percentages derived for rest of the years
- $\text{Trend \%} = \text{CY} / \text{BY} \times 100$





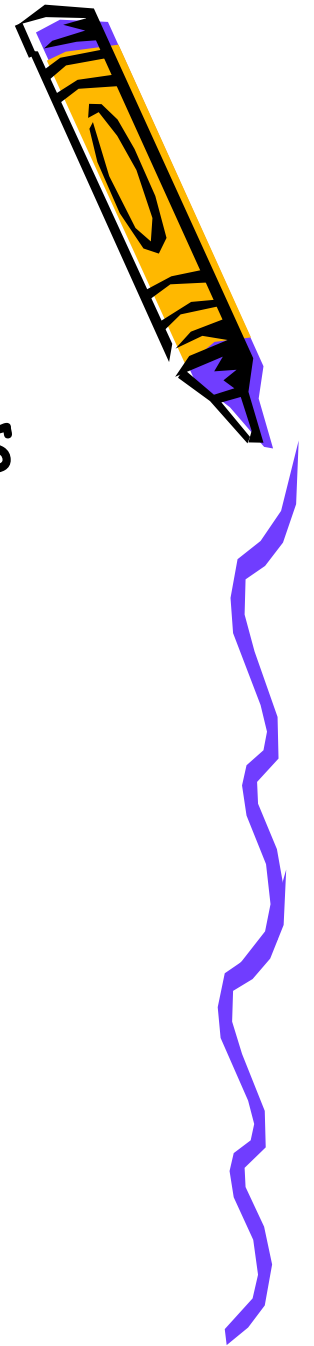
### TREND ANALYSIS

	2015	2016	2017	2015	2016	2017
	Rs.	Rs.	Rs.	%	%	%
Sales	25,00,000	45,00,000	60,00,000	100	180	240
Cost of Goods sold	20,00,000	30,00,000	40,00,000	100	150	200
GP	5,00,000	15,00,000	20,00,000	100	300	400
Net worth	30,00,000	45,00,000	60,00,000	100	150	200
Loan funds	20,00,000	15,00,000	10,00,000	100	75	50
Capital employed	50,00,000	60,00,000	70,00,000	100	120	140



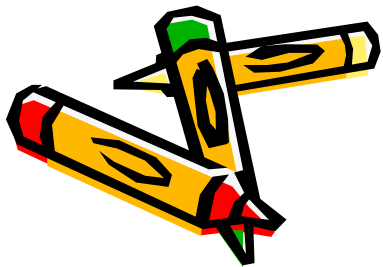
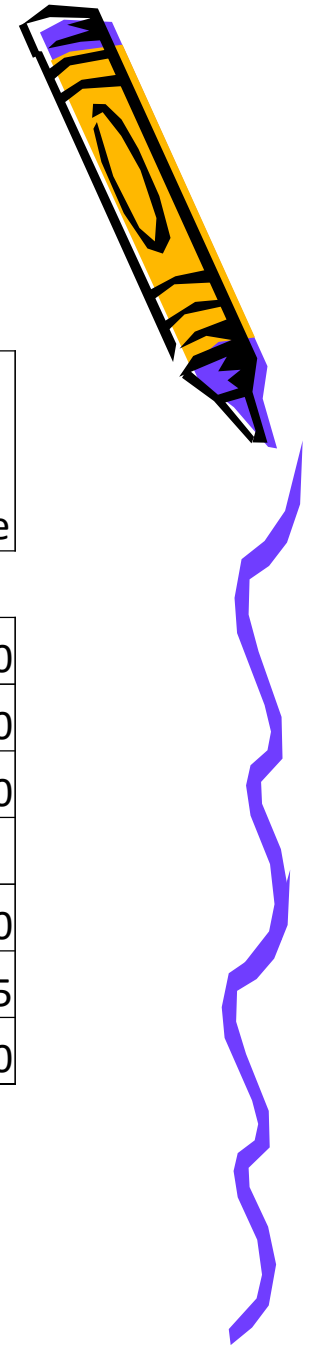
# Comparative statements

- Used for tracking relative changes over a period of two years
- Absolute change = YEAR 2 - YEAR 1
- % Change =  
$$\text{Absolute change} / \text{Year 1} \times 100$$



### Comparitive statements

	2015	2016	absolute change	% change
	Rs.	Rs.	Rs.	
Sales	25,00,000	45,00,000	20,00,000	80
Cost of Goods sold	20,00,000	30,00,000	10,00,000	50
GP	5,00,000	15,00,000	10,00,000	200
Net worth	30,00,000	45,00,000	15,00,000	50
Loan funds	20,00,000	15,00,000	(5,00,000)	-25
Capital employed	50,00,000	60,00,000	10,00,000	20



# Common size statements

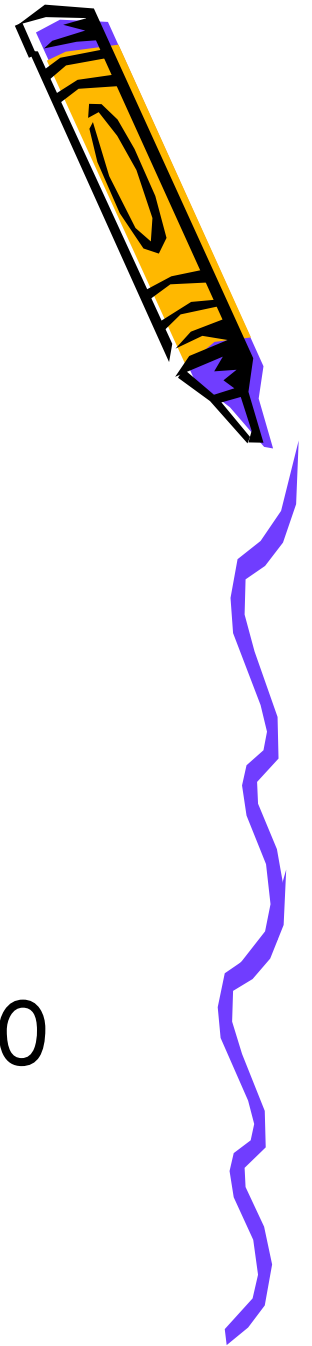
- All items in financial statements expressed as a % of base figure

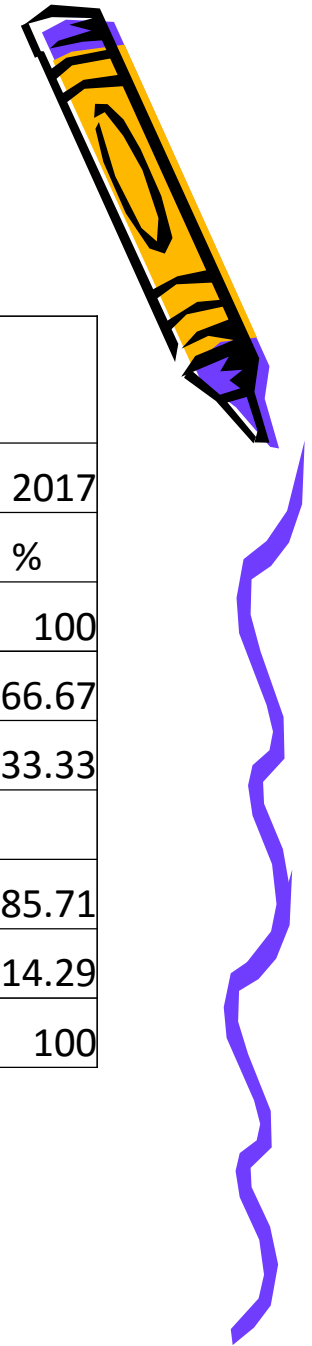
- For P&L a/c

Relevant item/net sales x 100

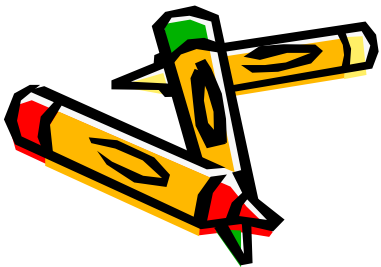
- For BS

Relevant item/capital employed x 100



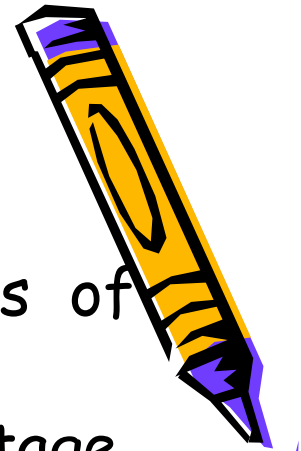


Common size statements						
	2015	2016	2017	2015	2016	2017
	Rs.	Rs.	Rs.	%	%	%
Sales	25,00,000	45,00,000	60,00,000	100	100	100
Cost of Goods sold	20,00,000	30,00,000	40,00,000	80	66.67	66.67
GP	5,00,000	15,00,000	20,00,000	20	33.33	33.33
Net worth	30,00,000	45,00,000	60,00,000	60	75	85.71
Loan funds	20,00,000	15,00,000	10,00,000	40	25	14.29
Capital employed	50,00,000	60,00,000	70,00,000	100	100	100



# Meaning & Types

- Ratio shows relationship between two items of financial statements
- Forms of expression:- Pure ratio, Percentage, Rate of change
- FS based types:- Balance sheet ratios, P&L a/c ratios, Composite ratios
- Functional classification:- Liquidity, leverage, activity, profitability
- User based classification:- ST creditors. Shareholders, Management, LT creditors





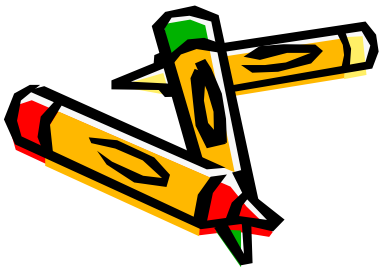
# Balance sheet ratios

- Current ratio=  $CA_s/CL_s$
- Liquidity or solvency ratio
- Judgment about short term liquidity
- Standard ratio 2:1
- To be used with Liquid ratio & Stock to WC ratio



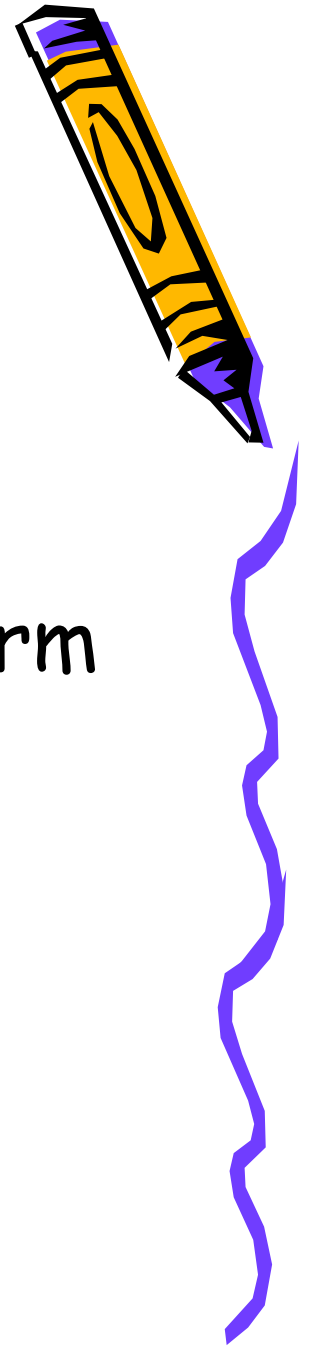
# Balance sheet ratios

- Liquid ratio=  $QAs/QLs$
- Liquidity or solvency ratio
- Judgment about short term liquidity
- Standard ratio 1:1
- To be used with Current ratio & Stock to WC ratio



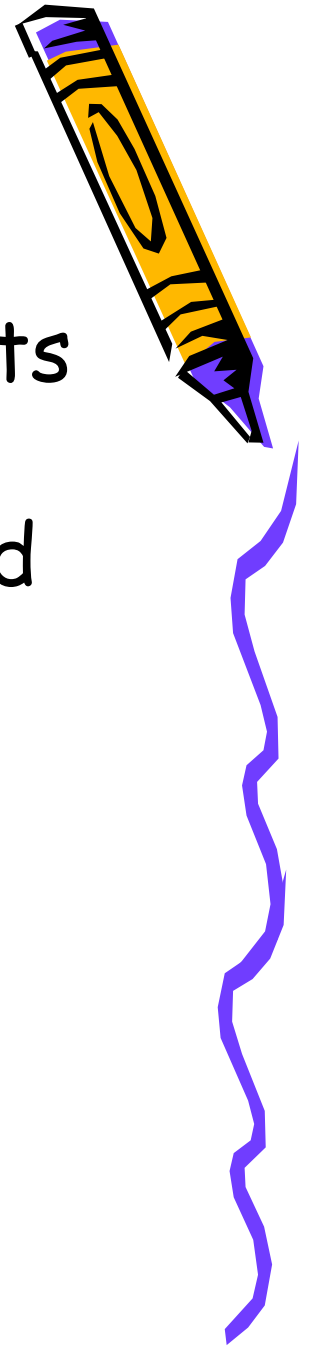
# Balance sheet ratios

- Stock to WC ratio=  $\text{Stock}/\text{WC}$
- Liquidity or solvency ratio
- Qualitative test of about short term liquidity
- No Standard ratio
- To be used with Current ratio & Quick ratio



# Balance sheet ratios

- Proprietary ratio =  $NW / (FAs + Invts + CAs) \times 100$
- Relationship between SH funds and Total capital invested
- LT solvency
- Ideal ratio 65%



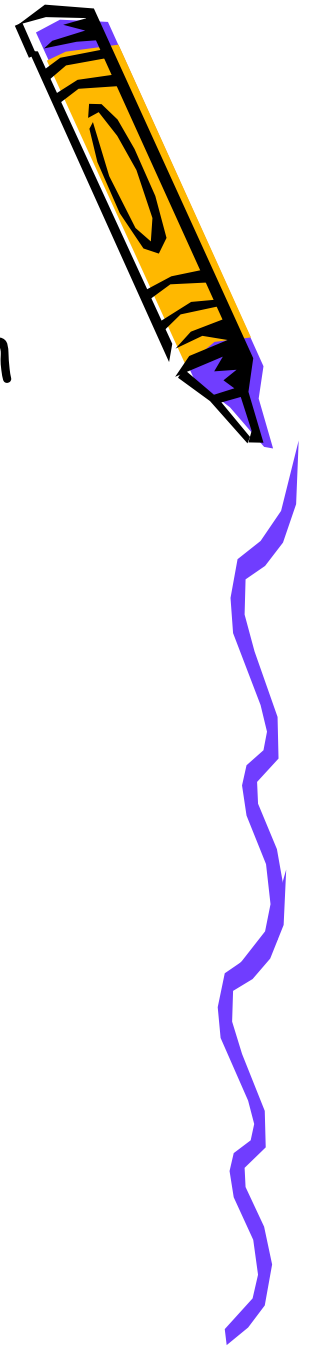
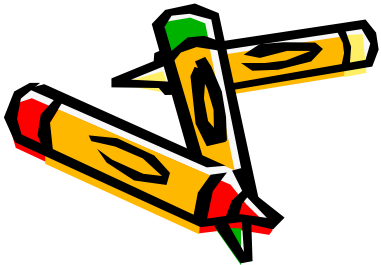
# Balance sheet ratios

- Debt equity ratio= Debt/NW OR
- Debt equity ratio= Debt/(NW + debt)
- Relationship between SH funds and Total capital invested
- LT solvency
- Ideal ratio 2:1



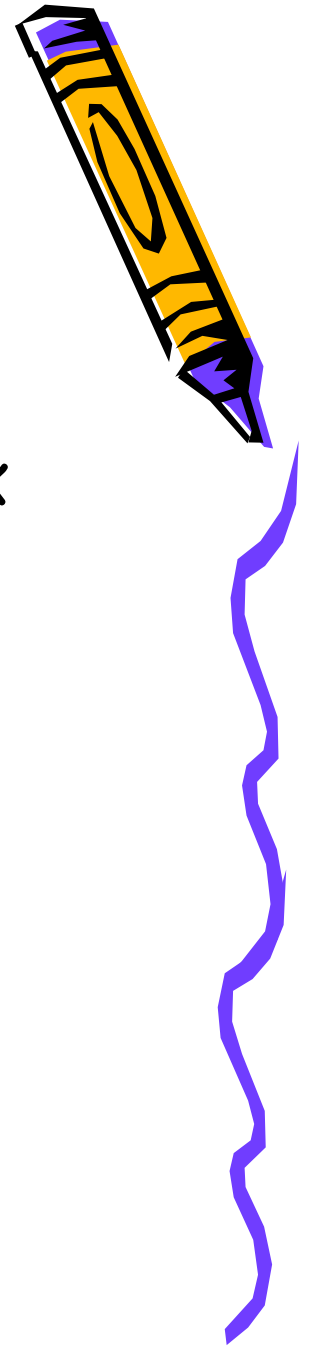
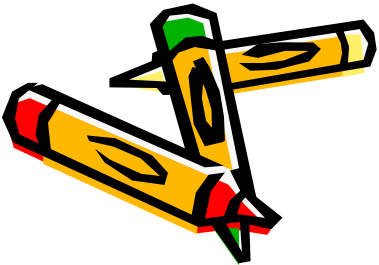
# Balance sheet ratios

- Capital Gearing ratio = Capital with fixed rate of interest or dividend / (NW - PC)
- Leverage ratio
- No standard ratio
- Ratio of 1 indicates evenly geared
- Ratio > 1, highly geared
- Trading on equity



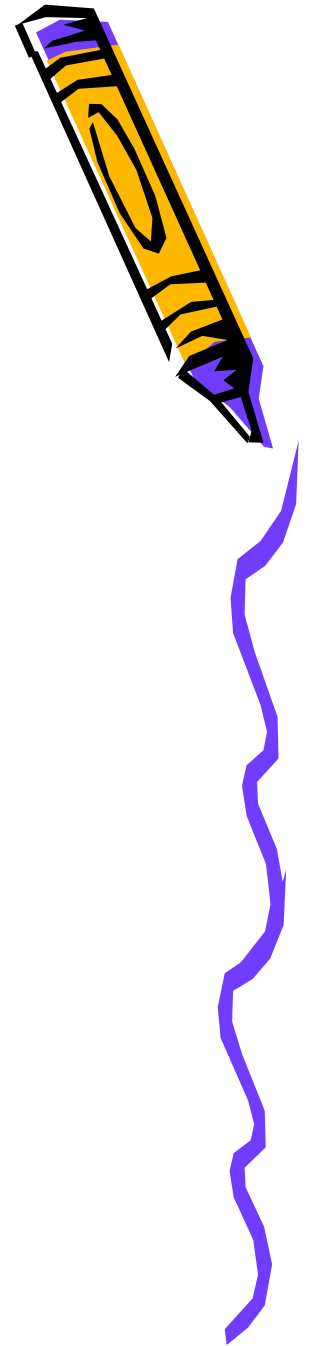
# P&L Statement ratios

- Gross profit ratio
- Operating ratio =  $(COGS + OE) / SALES \times 100$
- Expense ratio
- Operating profit ratio
- Net profit ratio =  $PBT / SALES \times 100$
- Stock turnover ratio =  $COGS / \text{average stock}$



# Composite ratios

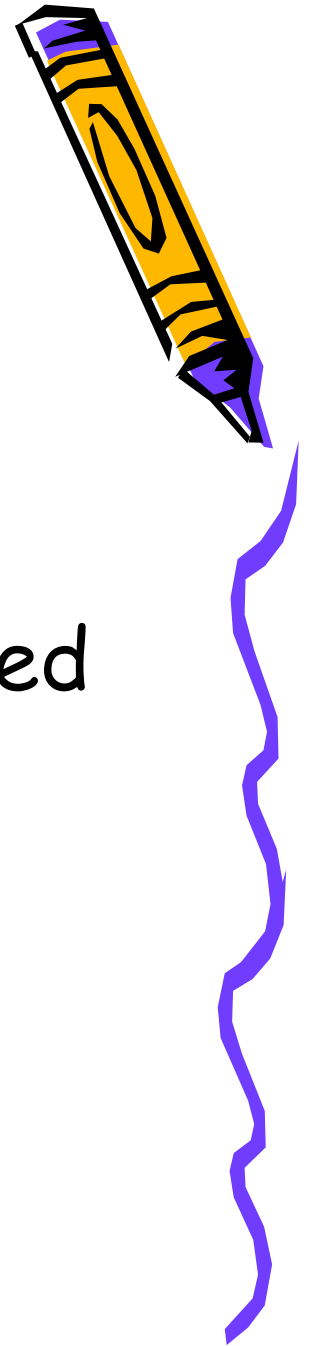
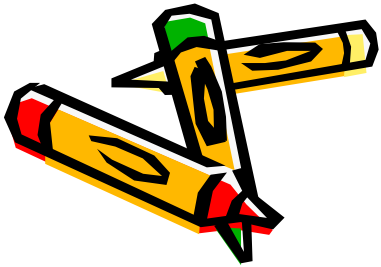
- Return on Capital employed ratio
- $ROCE = PBIT/CE * 100$
- $CE = NW + BF$
- Relation ship between earning & capital employed
- No standard ratio





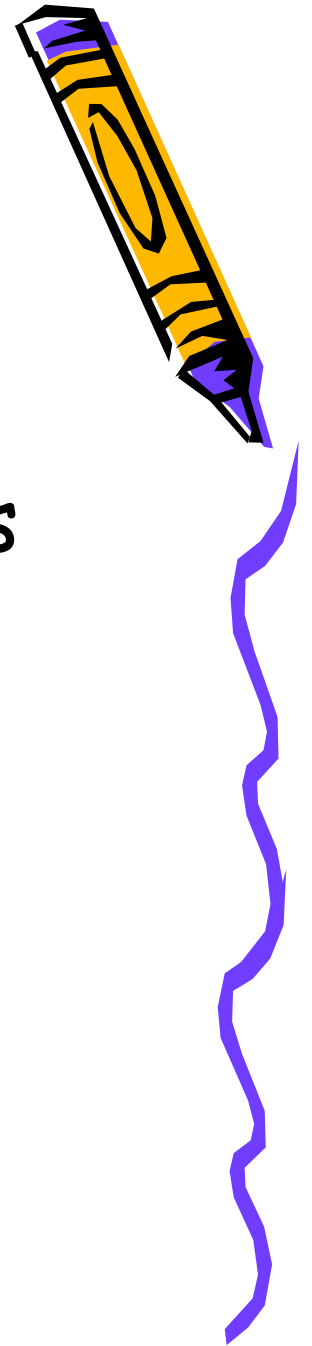
# Return on Proprietor's funds

- Ratio =  $PAT/NW * 100$
- Indicates returns available on owned funds
- No standard ratio



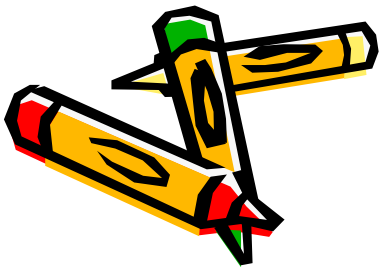
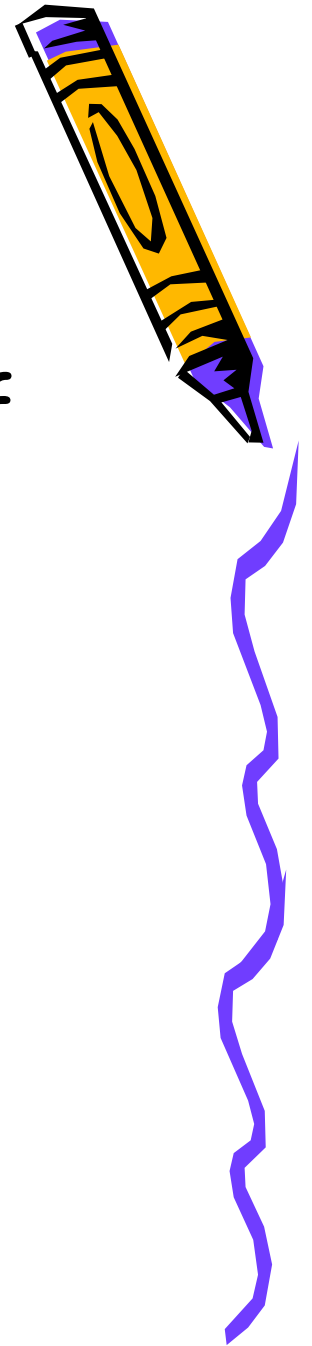
# Return on Equity capital

- Ratio = (PAT-pref div) / ESH Funds
- ESH funds = NWC-PC
- Indicates rate of return for equityholders



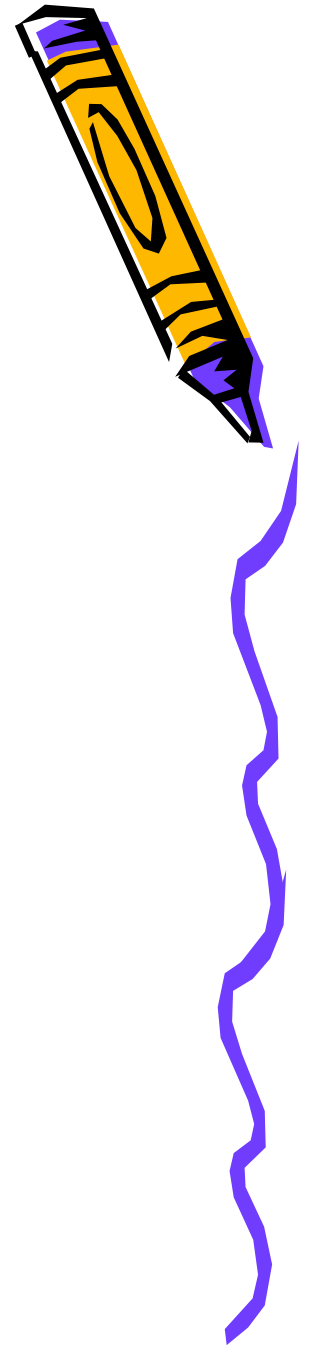
# Dividend payout ratio

- Ratio= Dividend to ESH/(PAT-pref div ) \* 100
- Indicates proportion of payout to equity holders
- No standard ratio



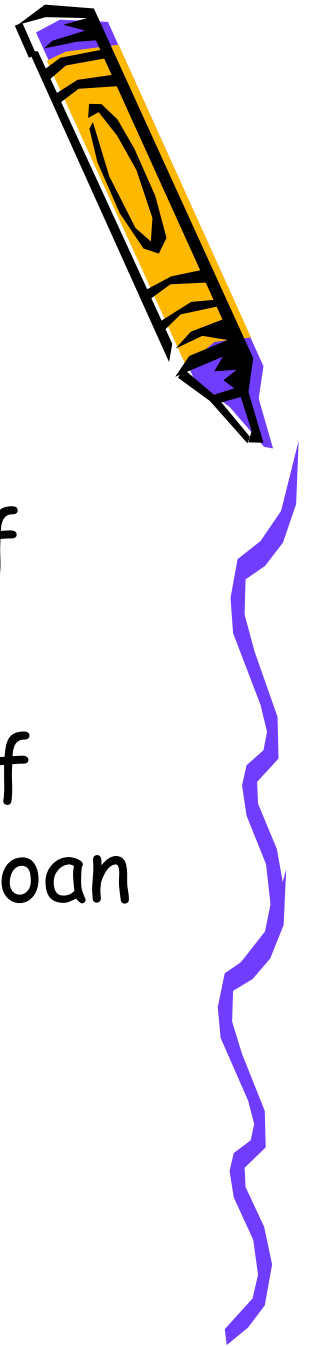
# Debt service ratio

- Ratio=  $PBIT/INTEREST$
- Indicates coverage for interest payments



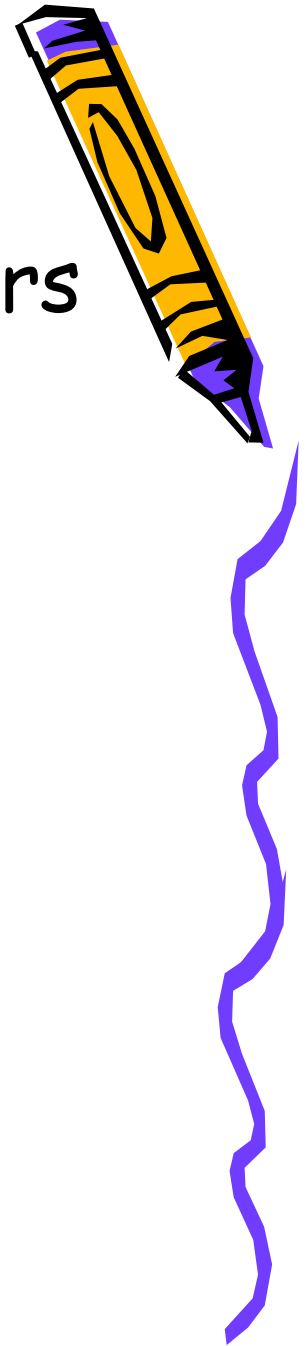
# Debt service coverage ratio

- Ratio =  $(PAT + \text{Interest} + \text{non cash charges}) / (\text{Interest} + \text{repayment of principal})$
- Used to lenders to check margin of safety for payment of interest & loan



# Debtors turnover ratio

- Ratio= Credit sales/(Sundry debtors + BR)
- Average credit period = 365 days/debtors turnover ratio
- Used to evaluate efficiency in management of debtors



# Creditors turnover ratio

- Ratio =  $\frac{\text{Credit purchases}}{(\text{Sundry creditors} + \text{BP})}$
- Average credit period =  $\frac{365 \text{ days}}{\text{creditors turnover ratio}}$
- Used to evaluate payment policy for creditors



Thank You

