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FINANCIAL STATEMENT ANALYSIS

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ABSTRACT:
The focus of the financial analysis is on key figures in the financial statements and the significant relationships exist between them. The analysis of financial statements is a process of evaluating relationships between component parts of financial statements to obtain a better understanding of the firm's position and performance. Financial statement is an organized collection of data according to logical and consisted accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business form. It may reveal a series of activities over a given period of time, as in the case of an income statement.

INTRODUCTION:

Financial analysis is the process of identifying the financial strengths and weakness of the firm by property establishing relationships between the item of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm, or by parts outside the firm.

"Financial analysis is a process of evaluating the relationship between component parts of a financial statement to obtain better understanding of a firm's positions and performance."

- By Metcalf and Tirard

Financial statement analysis is largely study of relationship among various financial factors in a business as a disclosed by single set of statements. And a study of the firm of these factors in a series of statement.

- By Myers

REVIEW OF LITERATURE:

The purpose of financial analysis is to diagnose the information contained in financial statements so as to judge the profitability and financial soundness of the firm.

TYPES OF FINANCIAL STATEMENT ANALYSIS:

a) Horizontal Analysis: In case of this type of analysis financial statements for a number of years are reviewed and analysed. The current year's figures are compared with the standard or base year. The analysis statement usually contains figures for two or more years and the changes are shown regarding each item from the base year usually in the form of percentages Such as analysis given the management considerable insight into levels and areas of strength and weakness.
b) Vertical Analysis: In case of this type of analysis a study is made of the quantitative relationship of the various items in the financial statements on a particular type, such an analysis is useful in comparing the performance of several companies in the same group, or divisions or departments in the same company. Since this analysis depends on the data for one period, is nor very conductive financial position. It is also called Static Analysis as it frequently used to ratios developed on one date or for one accounting period.
Tools or Techniques used for Analysis:

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1. Ratio Analysis
2. Method of least Squares (Trend Values)
3. Comparative statement Analysis.

1. Ratio Analysis: Ratio Analysis is widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two items/ Variable.

2. Methods of Least Squares (Trend Values): By the method of least square, a straight line trend can be fitted to the given time series of data. It is a mathematical, as well as, analytical method. With its help, economic and business time series data can be fitted and this helps in forecasting and predicting. The trend line is called the line of best fit.

3. Comparative Statement Analysis: Comparative statement is those statements, which have designed in a way, so as to provide time perspective to the consideration of the various elements of financial position embodied in such statements.

PROCEDURE OF FINANCIAL STATEMENT ANALYSIS

There are three steps involved in the analysis of financial statements those are
(1) Selection
(2) Classification
(3) Analysis

Objectives of Financial Statement

1. The Financial Statement are the source of information on the basis of which conclusion are drawn about the profitability and financial position of a concern.
2. They are the major means employed by firms to present their financial position of owners, creditors and the general public.
3. The primary objective is to provide reliable information about changes such economic resources and obligations to provide reliable financial information about economic resources and.
4. To provide financial information that assists in estimating the earning potentials of business.
5. To disclose to the extent possible other information to the financial statements that is relevant to the needs of the users of these statements.
6. To provide reliable information about changes in net resources arising out of business activities.

NEED FOR FINANCIAL ANALYSIS:

1. Every company must consider their liquidity position, profitability and solvency position and also the main attention should be on smooth working capital position.
2. For this analysis the ratios, working capital requirements for the next five years period to enables meaningful planning for the future.

RESEARCH METHODOLOGY

Methods of data collection

Secondary data

The secondary data is derived from the annual reports, Business line and finance newspapers websites and the internal auditing books of BHEL

Period of the study:

The study covers the time period of 5 years from the financial year 2017-18 and 2021- 22.

Tools and techniques used:

To analyse and interpret the financial statements of the study unit the following tools are used in the study.

1. Ratio Analysis.

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2. Trend Analysis. (Least square Method)
3. Comparative statement Analysis

DATA ANALYSIS AND INTERPRETATION:

The interpretations are also printed graphically using trend line graphs and subdividing bar diagram.

Fixed Assets Turnover Ratio:

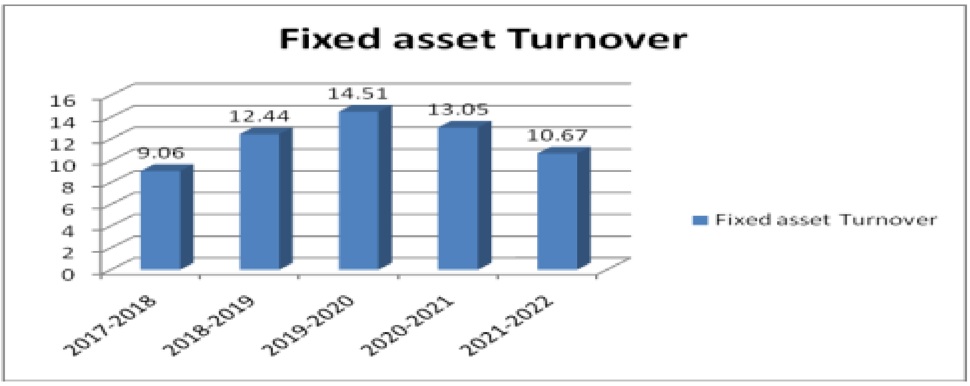
The ratio indicates that extent to which the investments in fixed assets contribute towards sales. If compared with a previous year, it indicates whether the investment in Fixed assets has been judicious or not. The ratio is calculated as follows.

$$\text{Fixed assets turnover ratio} = \frac{\text{Sales}}{\text{Fixed assets}}$$

TABLE NO 4.11

(In crores)

Year	Sales	Fixed asset	Fixed asset Turnover
2017-2018	10336	1140	9.06
2018-2019	14525	1167	12.44
2019-2020	18739	1291	14.51
2020-2021	21401	1639	13.05
2021-2022	28033	2627	10.67



Interpretation: The fixed asset turnover ratio during the year 2017-18 was 9.06. It is found that the fixed asset turnover ratio has been fluctuating during the study period. In the year 18- 19 it was 12.44. In the year 19-20 it was 14.51. During the year 2020-21 the fixed asset turnover ratio was 13.05. This, last year 2021-2022 it was decreased to 10.67

FINDINGS

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1. Current ratio shows a document trend indicating the company not able to fulfil current obligations furthers this also indicate that liquidity position of the company is less satisfactory.
2. In all the five years the current ratio is less than the ideals of 2. Creditor's term over ratio shows an upward trend and indicates better credit management.
3. In all the five years the liquid ratio is higher than the ideal ratio of 1 Common size financial statements clearly shoes the firm allocates half of the total current assets to debtor.
4. The firm's debt collection period have more than 180days it increased the debt collection period year by year. It shows firms liberal debt collection policy.
5. Sales show the increasing trend at the rate in every year.
6.

SUGGESTIONS

1. The current ratio of the company is below the standard ratio in all the 5 years under study, Hence it should be improved at least to the standard.
2. The debt collection period is more than 180 days which is to be reduced or the debt collection policy of the company is to be changed. Suitable training may be imparted to all the executives including labourers as and when they are recruited.
3. The company may take one of the measures for improving more profits; sale should be enhanced from into end through innovative marketing techniques. In a competitive business world, unless & other wise aggressive it is very difficult to achieve its required sales. Effect over the liquidity of the concern.
4. The concern is required to develop an effective inventory management system. Sales are to be increased to keep with increased in fixed Assets in order improve its fixed Assets turnover ratio

CONCLUSION

Efficient management of finance is very important for the success of an enterprise. Term financial statement is very dynamic term. The subject matter of financial performance has been changing very rapidly. In present time greater importance is given to financial performance. So, here an attempt is made by me to analyse the financial performance of BHEL.

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