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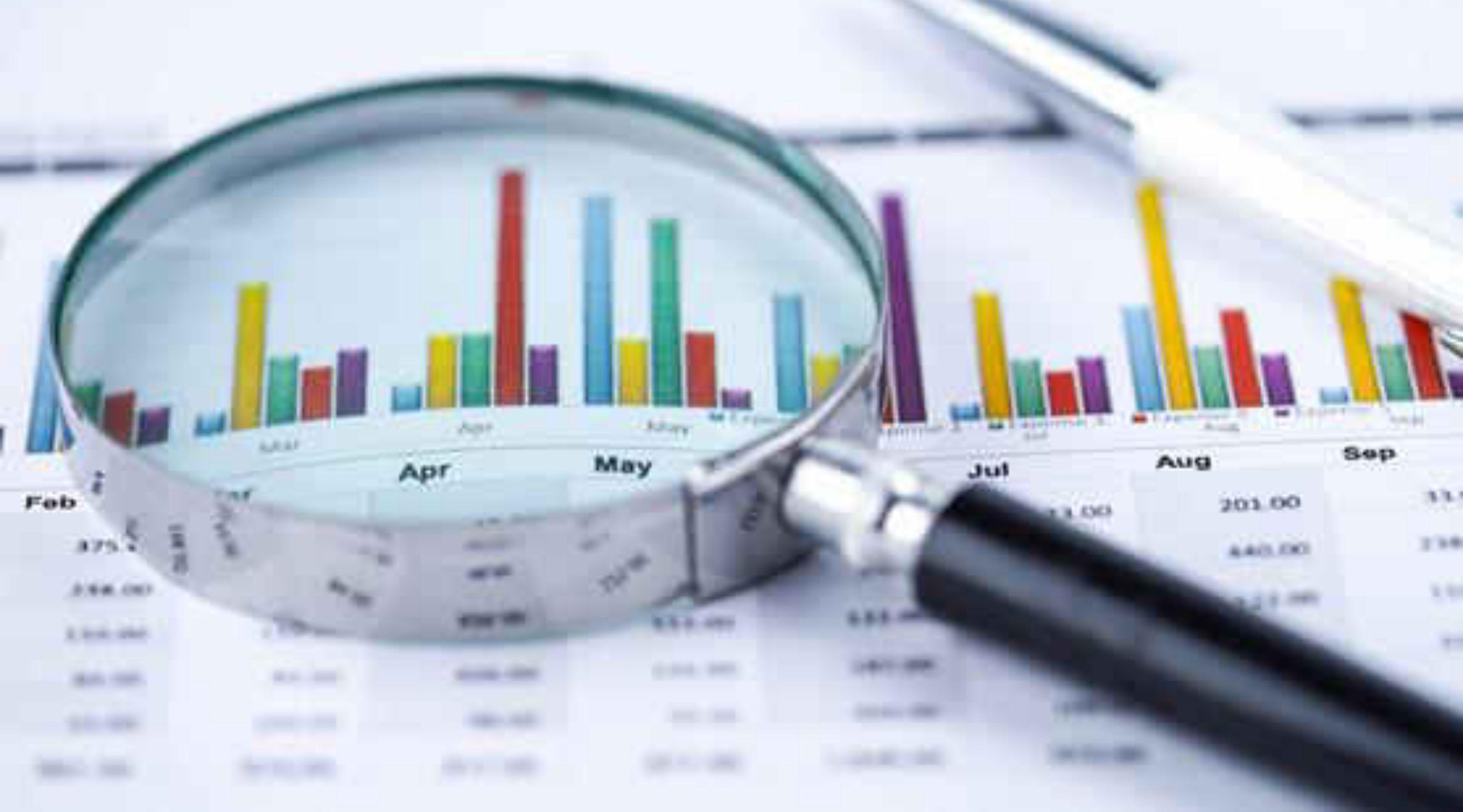
Tools of Financial Statement Analysis- Comparative Statements and Common Size Statements



Tools of Analysis of Financial Statements

The tools used for Financial Analysis are:-

1. **Comparative Statements:-** Comparative Statements means a comparative study of individual items of Balance Sheet and Statement of Profit and Loss of two or more years.
2. **Common-Size Statements:-** Common-size Statements in which individual items of financial statements of one or two or more years are placed and then converted into %ages taking a common base.
3. **Ratio Analysis:-** It is a relationship between two accounting variables.
4. **Cash Flow Statements:-** A statement which shows the flow of Cash and Cash Equivalent during an accounting period.

Comparative Statements

A Comparative Statement is a statement showing the comparative study of components or items of Balance Sheet and Statement of Profit and Loss for two or more than two years.

Comparative values show the trend and direction of financial position and operating performance. This analysis is also known as Horizontal Analysis.

Objectives or Purpose of Comparative Financial Statement

1. Data Presentation becomes Simple and Comparable
2. Indicates Trend
3. Indicates Strengths and Weaknesses
4. Inter-firm Comparison
5. Forecasting and Planning

Importance of Comparative Statement

1. Helps in taking Decision to Shareholders
2. Helps in taking Decision and making Plan
3. Provide Important Information to Lenders
4. Helps Investors to take Investment Decision

Limitations of Comparative Statement

1. Historical Records
2. Qualitative Elements are Ignored
3. Affected by Personal Judgement
4. Ignores Price Level Changes
5. Use of Different Accounting Policies

Tools or Techniques of Comparative Financial Statement

- Tools for Comparison Financial Statement
  - Comparative Balance Sheet
  - Comparative Statement of Profit and Loss
  - Common-size Balance Sheet
  - Common-size Statement of Profit and Loss

Comparative Balance Sheet

Comparative Balance Sheet analysis is the study of the trend of the same items, group of items and computed items in two or more Balance Sheets of the same business enterprise on different dates.

In this statement the assets, liabilities and capital of two or more years are compared to know the increase and decrease in these items.

Advantages of Comparative Balance Sheet

1. More Realistic Approach
2. Emphasis on Changes
3. Reflect Trends
4. Facilitates Planning
5. Shows effects of Business Operation on Financial Position

Preparation of Comparative Balance Sheet

Comparative Balance as at ……….

Particulars	**Note No.**	**Previous Year**	**Current Year**	**Absolute Change (Increase/Decrease)**	**%age Changes**
1	2	A 3	B 4	C=B-A 5	$D=\frac{C}{A}\times 100$ 6
I. Equity and Liabilities					
1. Shareholders' Funds					
(a) Share Capital		----------	---------	----------	----------
(b) Reserve & Surplus		----------	---------	----------	----------
2. **Non-Current Liability**					
(a) Long-term Borrowings		----------	---------	----------	----------
(b) Long Term Provisions		----------	---------	----------	----------
3. **Current Liability**					
(a) Short-term Borrowings		----------	---------	----------	----------
(b) Trade Payables		----------	---------	----------	----------
(c) Other Current Liability		----------	---------	----------	----------
(d) Short Term Provisions		----------	---------	----------	----------
Total		----------	---------	----------	----------

Particulars	Note No.	Previous Year	Current Year	Absolute Change (Increase/Decrease)	%age Changes
1	2	A 3	B 4	C=B-A 5	D= $\frac{C}{A} \times 100$ 6
II. Assets					
1. Non-Current Assets					
(a) Fixed Assets		----------	----------	----------	----------
(b) Non-Current Investment		----------	----------	----------	----------
(c) Long-term Loans and Advances		----------	----------	----------	----------
2. **Current Assets**					
(a) Current Investment		----------	----------	----------	----------
(b) Inventories		----------	----------	----------	----------
(c) Trade Receivables		----------	----------	----------	----------
(d) Cash & Cash Equivalent		----------	----------	----------	----------
(e) Short-term Loans and Advances		----------	----------	----------	---------
(f) Other Current Assets		----------	----------	----------	----------
Total		----------	----------	----------	----------

Prepare Comparative Balance Sheet of Sudha Ltd. From the following Balance Sheet:-

Particulars	Note No.	31.03.2019	31.03.2018
I. Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital		3,60,000	3,00,000
(b) Reserve & Surplus		1,50,000	1,20,000
2. **Non-Current Liability**			
(a) Long-term Borrowings		2,55,000	1,70,000
3. **Current Liability**			
(a) Trade Payables		1,20,000	1,50,000
Total		8,85,000	7,40,000
II. Assets			
1. Non-Current Assets			
Fixed Assets		7,50,000	6,00,000
2. Current Assets			
(a) Trade Payables		1,25,000	1,20,000
(b) Cash and Cash Equivalent		10,000	20,000
Total		8,85,000	7,40,000

Comparative Balance Sheet of Sudha Ltd. as at 31.03.19

Particulars	Note No.	31.3.18	31.3.19	Increase or Decrease	%age of +/-
I. Equity and Liabilities					
1. **Shareholders's Funds**					
(a) Share Capital		3,00,000	3,60,000	60,000	20.00
(b) Reserve and Surplus		1,20,000	1,50,000	30,000	25.00
2. Non Current Liability					
Long-term Borrowings		1,70,000	2,55,000	85,000	50.00
3. Current Liabilities					
Trade Payable		1,50,000	1,20,000	(30,000)	(20.00)
Total		7,40,000	8,85,000	1,45,000	19.60
II. Assets					
1. Non-current Assets					
Fixed Assets		6,00,000	7,50,000	1,50,000	30.00
2. Current Assets					
(a) Trade Receivables		1,20,000	1,25,000	5,000	4.17
(b) Cash and Cash Equivalent		20,000	10,000	(10,000)	(50.00)
Total		7,40,000	8,85,000	1,45,000	19.60

Comparative Statement of Profit and Loss

Statement of Profit and Loss shows the profit or loss during the year.

Comparative Statement of Profit and Loss is the horizontal analysis of Statement of Profit and Loss which shows the operating results for more than one year so that changes in absolute amounts and percentages from one period to another are calculated.

Objectives of Comparative Statement of Profit and Loss

Following are the objectives of Comparative Income Statement:-

1. **To analyse each item of revenue and expenses of two or more years.**
2. **To analyse increase or decrease as well as percentage in each item of revenue and expenses and to determine the trend of each item.**
3. **To compares data of more than one year of Income Statement.**
4. **To analyse and determine the reasons for changes in financial performance.**

Preparation of Comparative Statement of P&L

Comparative Statement of Profit and Loss as at ……….

Particulars	Note No.	Previous Year	Current Year	Absolute Change (Increase/Decrease)	%age Changes
1	2	A 3	B 4	C=B-A 5	D= $\frac{C}{A} \times 100$ 6
I. Revenue from Operations		----------	---------	----------	----------
II. Other Income		----------	---------	----------	----------
III. Total Revenue (I+II)		----------	---------	----------	----------
IV. Expenses					
(a) Cost of Material Consumed		----------	---------	----------	----------
(b) Purchase of Stock in Trade		----------	---------	----------	----------
(c) Change in Inventories		----------	---------	----------	----------
(d) Employees benefit Exp		----------	---------	----------	----------
(e) Finance Cost		----------	---------	----------	----------
(f) Depreciation and Amortisation Expenses		----------	---------	----------	----------

Particulars	**Note No.**	**Previous Year**	**Current Year**	**Absolute Change** **(Increase/Decrease)**	**%age Changes**
1	2	A 3	B 4	C=B-A 5	D= $\frac{C}{A} \times 100$ 6
(g) Other Expenses		----------	----------	----------	----------
Total Expenses		----------	----------	----------	----------
V. Profit before Tax (III- IV)		----------	----------	----------	----------
Less: Income Tax		----------	----------	----------	----------
VI. Profit after Tax		----------	----------	----------	----------

Illustration:-

Following information is extracted from the Statement of Profit and Loss of Batra Ltd. for the year ended 31st March, 2020 and 2019. Prepare Comparative Statement of Profit and Loss.

Particulars	**Note No.**	**31.03.2020**	**31.03.2019**
Revenue from Operations		20,00,000	16,00,000
Employees Benefit Expenses		10,00,000	8,00,000
Depreciation		50,000	40,000
Other Expenses		1,50,000	1,60,000
Tax Rate		30%	30%

Comparative Statement of Profit and Loss of Batra Ltd.
as at 31.03.2020

Particulars	Note No.	31.3.19	31.3.20	Increase or Decrease	%age of +/-
I. Revenue from Operations		16,00,000	20,00,000	4,00,000	25.00
II. Expenses					
(a) Employees Benefit Expenses		8,00,000	10,00,000	2,00,000	25.00
(b) Depreciation		40,000	50,000	10,000	25.00
(c) Other Expenses		1,60,000	1,50,000	10,000	6.25
Total Expenses		10,00,000	12,00,000	2,00,000	20.00
III. Profit before Tax (I-II)		6,00,000	8,00,000	2,00,000	33.33
Less: Tax @ 30%		1,80,000	2,40,000	60,000	33.33
IV. Profit after Tax		4,20,000	5,60,000	1,40,000	33.33

Common-Size Statement

Common-Size Statement is vertical analysis of Financial Statements in which amounts of individual items of Balance Sheet and Statement of Profit and Loss are written. These amounts are further converted into percentages to a common base. Common base is Total Assets or Total Liabilities in case of Common-Size Balance Sheet and Revenue from Operations in case of Statement of Profit and Loss.

Common-Size Balance Sheet

Common-Size Balance Sheet is the analysis of amount of individual items of Balance Sheet and then amount of these individual items are converted into percentage to common base, i.e., Total Assets and Total Liabilities.

It is prepared for intra-firm and inter-firm comparison.

$$\%\text{age of Previous Year} = \frac{\textit{Individual Item of Previous Year}}{\textit{Total Asset or Total Liability of Previous Year}} \times 100$$

$$\%\text{age of Current Year} = \frac{\textit{Individual Item of Current Year}}{\textit{Total Asset or Total Liability of Current Year}} \times 100$$

Preparation of Common-Size Balance Sheet

Common-Size Balance as at ……….

Particulars	Note No.	Previous Year	Current Year	Previous Year %age	Current Year %age
1	2	3	4	5	6
I. Equity and Liabilities					
1. Shareholders' Funds					
(a) Share Capital		----------	---------	----------	----------
(b) Reserve & Surplus		----------	---------	----------	----------
2. **Non-Current Liability**					
(a) Long-term Borrowings		----------	---------	----------	----------
(b) Long Term Provisions		----------	---------	----------	----------
3. **Current Liability**					
(a) Short-term Borrowings		----------	---------	----------	----------
(b) Trade Payables		----------	---------	----------	----------
(c) Other Current Liability		----------	---------	----------	----------
(d) Short Term Provisions		----------	---------	----------	----------
Total		----------	---------	100.00	100.00

Particulars	Note No.	Previous Year	Current Year	Previous Year %age	Current Year %age
1	2	3	4	5	6
II. Assets					
1. Non-Current Assets					
(a) Fixed Assets		----------	----------	----------	----------
(b) Non-Current Investment		----------	----------	----------	----------
(c) Long-term Loans and Advances		----------	----------	----------	----------
2. **Current Assets**					
(a) Current Investment		----------	----------	----------	----------
(b) Inventories		----------	----------	----------	----------
(c) Trade Receivables		----------	----------	----------	----------
(d) Cash & Cash Equivalent		----------	----------	----------	----------
(e) Short-term Loans and Advances		----------	----------	----------	---------
(f) Other Current Assets		----------	----------	----------	----------
Total		----------	----------	100.00	100.00

Illustration:-

Prepare Common Size Balance Sheet of Alpha Ltd. From the following Balance Sheet:-

Particulars	Note No.	31.03.2019	31.03.2018
I. Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital		3,50,000	3,00,000
(b) Reserve & Surplus		2,00,000	1,50,000
2. **Non-Current Liability**			
(a) Long-term Borrowings		3,00,000	2,00,000
3. **Current Liability**			
(a) Trade Payables		1,50,000	1,50,000
Total		10,00,000	8,00,000
II. Assets			
1. Non-Current Assets			
Fixed Assets		7,50,000	6,00,000
2. Current Assets			
(a) Trade Payables		2,00,000	1,70,000
(b) Cash and Cash Equivalent		50,000	30,000
Total		10,00,000	8,00,000

Common-Size Balance Sheet of Alpha Ltd. as at 31.03.19

Particulars	Note No.	31.3.18	31.3.19	31.3.18 %age	31.3.19 %age
I. Equity and Liabilities					
1. **Shareholders's Funds**					
(a) Share Capital		3,00,000	3,50,000	37.50	35.00
(b) Reserve and Surplus		1,50,000	2,00,000	18.75	20.00
2. Non Current Liability					
Long-term Borrowings		2,00,000	3,00,000	25.00	30.00
3. Current Liabilities					
Trade Payable		1,50,000	1,50,000	18.75	15.00
Total		8,00,000	10,00,000	100.00	100.00
II. Assets					
1. Non-current Assets					
Fixed Assets		6,00,000	7,50,000	75.00	75.00
2. Current Assets					
(a) Trade Receivables		1,70,000	2,00,000	21.25	20.00
(b) Cash and Cash Equivalent		30,000	50,000	3.75	5.00
Total		8,00,000	10,00,000	100.00	100.00

Common-Size Statement of Profit and Loss

Common-Size Statement of Profit and Loss, Revenue from Operations is taken as base as 100 and other items of Statement of Profit and Loss are expressed in percentage of Revenue from Operations.

Preparation of Common-Size Statement of P&L

Common-Size Statement of Profit and Loss as at ……….

Particulars	Note No.	Previous Year	Current Year	Previous Year %age	Current Year %age
1	2	3	4	5	6
I. Revenue from Operations		----------	---------	100.00	100.00
II. Other Income		----------	---------	----------	----------
III. Total Revenue (I+II)		----------	---------	----------	----------
IV. Expenses					
(a) Cost of Material Consumed		----------	---------	----------	----------
(b) Purchase of Stock in Trade		----------	---------	----------	----------
(c) Change in Inventories		----------	---------	----------	----------
(d) Employees benefit Exp		----------	---------	----------	----------
(e) Finance Cost		----------	---------	----------	----------
(f) Depreciation and Amortisation Expenses		----------	---------	----------	----------

Particulars	Note No.	Previous Year	Current Year	Previous Year %age	Current Year %age
1	2	3	4	5	6
(g) Other Expenses		----------	----------	----------	----------
Total Expenses		----------	----------	----------	----------
V. Profit before Tax (III-IV)		----------	----------	----------	----------
Less: Income Tax		----------	----------	----------	----------
VI. Profit after Tax		----------	----------	----------	----------

Illustration:-

Following information is extracted from the Statement of Profit and Loss of Batra Ltd. for the year ended 31st March, 2020 and 2019. Prepare Common-Size Statement of Profit and Loss.

Particulars	Note No.	31.03.2020	31.03.2019
Revenue from Operations		20,00,000	10,00,000
Employees Benefit Expenses		10,00,000	6,00,000
Depreciation		50,000	40,000
Other Expenses		1,50,000	1,60,000
Tax Rate		30%	30%

Comparative Statement of Profit and Loss of Batra Ltd.
as at 31.03.2020

Particulars	Note No.	31.3.19	31.3.20	31.3.19 %age	31.3.20 %age
I. Revenue from Operations		10,00,000	20,00,000	100.00	100.00
II. Expenses					
(a) Employees Benefit Expenses		6,00,000	10,00,000	60.00	50.00
(b) Depreciation		40,000	50,000	4.00	2.50
(c) Other Expenses		1,60,000	1,50,000	16.00	7.50
Total Expenses		8,00,000	12,00,000	80.00	60.00
III. Profit before Tax (I-II)		2,00,000	8,00,000	20.00	40.00
Less: Tax @ 30%		60,000	2,40,000	6.00	12.00
IV. Profit after Tax		1,40,000	5,60,000	14.00	28.00