As our project primarily focuses on summarizing and analyzing financial statements as a group, it was essential for us first to gain a clear understanding of the related concepts and terminology. To build this foundation, we began by reviewing basic reference materials on financial analysis. In addition, we explored various online resources to broaden our knowledge and gather relevant insights into the domain. This preliminary research has helped us develop a stronger grasp of the subject matter, enabling us to approach the project with better clarity and direction.

Review Available Documentation:
We read some available materials online to get insights into the analysis of financial statements.
From which this is the knowledge we gathered,

Financial transactions of businesses and non-business enterprises are recorded according to accounting principles, beginning with journal entries and ending with final accounts. Final accounts include the trading account, profit and loss account (income statement), and balance sheet. Additionally, statements like the cash flow statement and fund flow statement provide more insights.

These financial statements reveal outcomes of financial activities, such as gross profit, net profit, and liabilities, and represent historical information of a specific accounting period. The profit and loss account shows the results of operations, while the balance sheet displays the financial position of the business. The cash flow statement highlights the inflow and outflow of cash.

However, financial statements only show results, not the reasons behind them. They do not explain factors influencing outcomes or relationships among different components. Their objectives are predetermined, and they help assess business performance (e.g., calculation of gross profit from sales, purchases, and stock values).

1. Meaning of Financial Statements

- Financial statements record the results of financial activities of a business.
- They provide organized reports of financial conditions.
- Examples include income statement (profit/loss account), balance sheet, and cash flow statement.

2. Objectives of Financial Statements

1. To know profit or loss – Income statement shows difference between receipts and payments (profit or loss).

2. To know financial position – Balance sheet shows assets vs. liabilities to indicate strength or weakness.

3. To know cash position – Cash flow statement shows inflow and outflow of cash during a period.

3. Significance of Financial Statements

- Useful for stakeholders like management, investors, creditors, employees, customers, and governments.
- Helps in decision-making by disclosing results and financial condition.
- Analysis of financial statements increases their usefulness.

4. Meaning of Financial Analysis

- Financial statements show results but require analysis for comparison and decision-making.
- Analysis rearranges and interprets statements in a comparable form.

5. Types of Financial Analysis

1. On the basis of stakeholders
    - External analysis: Done by outsiders (investors, creditors, agencies) using published reports.
    - Internal analysis: Done by management using internal records.
2. On the basis of form
    - Horizontal analysis: Compares financial statements of different years (trend analysis).

    - Vertical analysis: Compares statements of the same year across different units/departments.

3. On the basis of duration

    - Long-term analysis: For strategic planning.

    - Short-term analysis: For immediate decisions.

Examples

- Horizontal analysis: Compare 2013 vs. 2014, 2015, etc., to check trends (profits, assets, liabilities).

- Vertical analysis: Compare Company X, Y, Z in 2017 to see performance differences within one year.

Objectives of Financial Analysis

1. Evaluation of Earning Capacity – Assesses the business's ability to earn during a given period (usually 12 months) and forecasts future earnings using ratios. Useful for investment decisions.

2. Efficiency Evaluation – Examines how effectively assets are used to generate income.

3. Solvency Evaluation – Measures short-term solvency (ability to meet immediate obligations) and long-term solvency (capacity to repay long-term debts).

4. Managerial Efficiency – Evaluates fairness and effectiveness of managerial decisions, especially by comparing actual performance with expectations.

5. Budget Planning – Helps in forecasting future needs such as sales, production, capital expenditure, and expenses.

6. Comparative Study – Compares performance over time (inter-period comparison) or with other businesses (inter-firm comparison).

7. Simplicity & Understanding – Makes financial results easier to interpret for all stakeholders, even non-experts.

Uses of Financial Analysis

Financial analysis helps stakeholders in decision-making by focusing on key aspects:

1. Profitability – Reveals earning capacity.
2. Liquidity – Shows short-term solvency.
3. Solvency – Shows long-term financial health.
4. Efficiency – Explains effective use of assets.

Significance of Comparative Financial Statements

Comparative financial statements help stakeholders understand company performance by presenting information in a comparable and reorganized format. Their importance can be described as:

1. Intra-firm Comparison
    - Compares a company's current year results with previous years.
    - Shows whether efficiency and profitability have improved or declined.
    - Also used to compare performance across different departments of the same business.
2. Inter-firm Comparison
    - Compares the results of one business with those of other businesses in the same industry.
    - Helps stakeholders assess relative financial strength and market standing.
3. Indicates Trend
    - Identifies patterns of profitability and performance across years.
    - Useful for forecasting and decision-making.

4. Useful to Creditors
    - Lenders analyze comparative statements to judge a company's creditworthiness.
5. Simple and Comparable Presentation of Information
    - Financial data is rearranged into a comparable form, making it easier to analyze and understand.

Stages of Analysis of Financial Statements

Financial statements are prepared and analyzed in stages:

1. Structural Arrangement
    - Statements are reorganized to fit legal requirements and include tools like ratio analysis and trend analysis.
    - Example: rearranging the net profit of five years to see profit trends.
2. Comparison
    - Financial results are compared across years, or with competitors.
    - Helps assess sales growth, profit margins, and overall performance.
3. Analysis and Interpretation
    - Breaks financial data into components to explain relationships (e.g., between sales and profit).
    - Identifies reasons for increases/decreases in financial results.
    - Interpretation is crucial for stakeholders' decision-making.

Tools of Analysis of Financial Statements

1. Comparative Financial Statements

- Financial data of two or more years is presented side by side for easy comparison.
- Shows favorable or unfavorable trends.

2. Common Size Statements

    - Each item in the statement is shown as a percentage of a base (like total sales or total assets).
    - Helps compare performance across different-sized companies.

There are some standard structures that are used for these statements. We understood them to get more and clearer insight that helped us in data extraction.

Some basic structures that are used are as follows

Structure of Comparative Profit-Loss Statement

Comparative Profit-Loss Statements for the Year Ending on 31-3-2016 and 31-3-2017

Particulars	Note No.	Previous Year (₹)	Current Year (₹)	Increase/ decrease (₹)	Increase/ decrease (%)
1	2	3	4	5(4 − 3)	6 $\left(\frac{5}{3} \times 100\right)$
(I) Sales revenue					
(II) Other income					
(III) Total revenue (I + II)					
(IV) Expenses :					
(i) Cost of goods consumed					
(ii) Net purchase of resale					
(iii) Changes in stock					
(iv) Employees benefit expenses					
(v) Financial cost					
(vi) Depreciation and Amortized expenses					
(vii) Other expenses					
Total expenses					
(V) Profit before tax (III – IV)					
(VI) Less : Income tax					
(VII) Profit after tax (V – VI)					

Format of Comparative Balance Sheet

Balance Sheet as on ....

Particulars 1	**Note No.** 2	**Previous Year (₹)** 3	**Current Year (₹)** 4	**Increase/ Decrease (₹)** 5(4 − 3)	**Increase/ Decrease (%)** 6 $\left(\frac{5}{3} \times 100\right)$
(I) Equity and Liabilities					
(1) Shareholders' funds :					
(a) Share capital					
(i) Equity share capital					
(ii) Preference share capital					
(b) Reserves and surplus					
(2) Non-current liabilities					
(i) Long-term borrowings					
(ii) Long-term provisions					
(3) Current liabilities					
(i) Short-term borrowings					
(ii) Trade payable					
(iii) Other current liabilities					
(iv) Short-term provisions					
Total					
(II) Assets :					
(1) Non-current assets :					
(a) Fixed assets					
(i) Tangible assets					
(ii) Intangible assets					
(b) Non-current investments					
(c) Long-term loan and advances					
(d) Other non-current assets					
(2) Current assets :					
(i) Current investments					
(ii) Inventories					
(iii) Trade receivables					
(iv) Cash and cash equivalent					
(v) Short-term loans and advances					
(vi) Other Current assets					
Total					

Common Size Statement of Profit and Loss Statement for the Year Ending on .... and ....

Particulars	Note No.	Amount (₹)		Percentage to Sales	
		Figures of previous year (₹)	Figures of current year (₹)	Percentage of previous year	Percentage of current year
(I) Sales revenue					
(II) Other income					
(III) Total income (I + II)					
(IV) Expenses :					
(i) Cost of goods sold					
(ii) Net purchase for resale					
(iii) Changes in stock					
(iv) Employees' benefit expenses					
(v) Financial cost					
(vi) Depreciation and amortized amount					
(vii) Other expenses					
Total Expenses					
(V) Profit before tax					
(VI) Less : Income tax					
(VII) Profit after tax					

Format of common size statement of balance sheet.

Common Size Statement of Balance Sheets as on .... and ....

Particulars	Note No.	Amount (₹)		Percentage to total of balance sheet	
		Figures of previous year (₹)	Figures of current year (₹)	Percentage of previous year	Percentage of current year
(I) Equity and Liabilities					
(1) Shareholders' funds :					
(a) Share capital					
(i) Equity share capital					
(ii) Preference share capital					
(b) Reserves and surplus					
(2) Non-current liabilities					
(i) Long-term borrowings					
(ii) Long-term provisions					

Particulars	Note No.	Amount (₹)		Percentage to total of balance sheet	
		Figures of previous year (₹)	Figures of current year (₹)	Percentage of previous year	Percentage of current year
(3) Current liabilities (i) Short-term payables (ii) Trade payables (iii) Other current liabilities (iv) Short-term provisions					
Total					
(II) Assets :					
(1) Non-current assets : (a) Fixed assets (i) Tangible assets (ii) Intangible assets (b) Non-current investments (c) Long-term loan and advance (2) Current assets : (i) Current assets (ii) Stock (ii) Trade receivables (iv) Cash - cash equivalent (v) Short-term loan and advances (vi) Other Current assets					
Total					