

## **Case Study on Income Statement**

From previous interviews with the owners of Dry Supply, a wholesale company of cleaning products, RM Ramchandra has learned that the company was founded 10 years back by Mr. Jugal Kishor (50%) and his two sons, Harish (25%) and Shyam (25%) who are the current owners and managers of the company. Two sons also are employed by the company. In short, this is a family-run business and likely to remain so in the foreseeable future.

Dry Supply has requested for a loan of NPR 6,000,000 to purchase three delivery vans.

Dry Supply began as a wholesaler of powdered laundry products. Five years later, the operation changed its focus to dry cleaning supplies, such as liquid cleaners, plastic bags, and metal hangers. The company continues in that capacity today. Historically, the company has had a very good operating and credit record, and a check on its dealings with suppliers and customers reveals no notable problems. The company has many loyal clients.

Having obtained this and other background information, Ramchandra prepares to analyze Dry Supply's income statements. Adhering to a consistent process, Ramchandra begins by first reviewing the statements presented by the customer, noting the overall quality and completeness of the data. Applicable information, taken from the statements, then is entered into a computer, which generates a standard spreadsheet. At Ramchandra's bank, all financial statements, are analyzed by using a standard format. The bank has discovered that a key to effective analysis is consistency in both the presentation and evaluation of information.

With spreadsheet in hand, Ramchandra begins a comprehensive financial analysis of Dry Supply's income statements.

### **Instructions**

Next, answer the following questions.

1. For the last three years Ramchandra analyzed, sales have shown a moderate increase from approximately Rs.895,000 to Rs.918,000. Sales have declined, however, during the most recent year. Ramchandra sees this decrease as more of a concern than the three-year increase: What are some questions Ramchandra should ask Dry Supply to help explain this sales decrease?
2. Dry Supply's cost of goods sold has decreased over the three-year period. What questions should Ramchandra develop to ask Dry Supply regarding the cost of goods sold?
3. Operating expenses increased from Rs.157,000 to Rs.180,000 in two years. What are some questions Ramchandra should ask about the operating expenses?
4. Overall, Dry Supply has been consistently profitable, with after-tax profits rising each year. What are some questions Ramchandra should ask Dry Supply about the growing profitability?