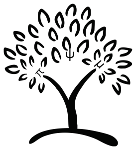

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A study on financial analysis

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Abstract
The success of every business enterprise is directly related to the competencies of business management. The business enterprise can, as a result, create variations of how to approach the new complex and changing situations of success in the market. Therefore managers are trying during negative times to change their management approach, to ensure long-term and stable running of the business enterprise. They are forced to continuously maintain and obtain customers and suppliers. By implementing these measures they have the opportunity to achieve a competitive advantage over other business enterprises.

Keywords
Financial analysis, company, profit, activity, profitability, liquidity, indebtedness.

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1. Introduction

Finance is defined as the provision of money when it is required. Every enterprise need finance to start and carry out its operations. Finance is the life blood of an organization. So, finance should be managed effectively. Financial statements are prepared primarily for decision making. Financial statement analysis refers to the process of determining financial strength and weakness of the firm by properly establishing strategic relationship between the items of the balances sheet and profit and loss account. There are various methods and techniques used in analysing financial statement, such as comparative statement, trend analysis, common size balance sheet, fund flow and cash flow analysis, cost volume profit analysis and ratio analysis.

The financial statement provides the basic data for financial performance analysis. The financial statements provide a summarized view of the financial position and operations of a firm. Financial analysis (also referred to as financial statement analysis or accounting analysis) refers to an assessment of the viability, stability and profitability of a business. The analyst first identifies the information relevant to the decision under consideration from the total information contained in the financial statements. Therefore, much can be learnt about a firm from a careful examination of its financial statements as invaluable documents and performance reports. The analysis of financial statements is an important aid to financial analysis. They provide information on how the firm has performed in the past and what is its current financial position. Financial analysis is the process of identifying the financial strengths and weakness of the firm from the available accounting data and financial statements. The analysis is done by establishing relationship between the different items of financial statements.

The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance. The first task of financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statement. The second step involved in financial analysis is to arrange the information in a way to highlight significant relationships. The final step is interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of selection, relation, and evaluation.

Definition:

According to Metcalf and Titard," Analysis financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of firm's position and performance" II. Financial

statement A financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment of time as in the case of a balance sheet, or may reveal an activity over a given Period of time, as in the case of an income statement. Thus, the term financial statement generally refers to the basis statements:

1) The income statement,

2) The balance sheet,

3) A statement of retained earnings,

4) A statement of charge in financial position in addition to the above two statements.

Financial statement Analysis:

It is the process of identifying the financial strength and weakness of a firm from the available accounting data and financial statement. The analysis is done by properly establishing the relationship between the items of balance sheet and profit and loss account the first take of financial analyst is to determine the information relevant to the decision under consideration form the total information contained in the financial statement. The second step is to arrange information in a way to highlight significant relationship. The final step is interpretation and drawing of inferences and conclusion. Thus, financial analysis is the process of selection relating and evaluation of the accounting data information. The focus of the financial statement analysis is on key figures in the financial statement and the significant relationship the exists between them. The analysis of financial statement is a process of evaluating relationship between component parts of financial statement to obtain a better understanding if the firms position and performance.

Financial analysis:

Financial analysis is the pross 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 Statements:

Financial analysts rely on data to analyse the performance of, and make predictions about, the future direction of a company's stock price. One of the most important resources of reliable and audited financial data is the annual report, which contains the firm's financial statements. The three main financial statements are the income statement, balance sheet and cash flow statement.

Balance Sheet:

The balance sheet provides an overview of assets, liabilities and stockholders' equity as a snapshot in time. The date at the top of the balance sheet tells you when the snapshot was taken, which is generally the end of the fiscal year. The balance sheet equation is assets equals liabilities plus stockholders' equity, because assets are paid for with either liabilities, such as debt, or stockholders' equity, such as retained earnings and additional paid-in capital. Assets are listed on the balance sheet in order of liquidity. Liabilities are listed in the order in which they will be paid. Short-term or current liabilities are expected to be paid within the year, while long-term or noncurrent liabilities are debts expected to be paid after one year.

Income Statement:

Unlike the balance sheet, the income statement covers a range of time, which is a year for annual financial statements and a quarter for quarterly financial statements. The income statement provides an overview of revenues, expenses, net income and earnings per share. It usually provides two to three years of data for comparison.

Cash Flow Statement:

The cash flow statement merges the balance sheet and the income statement. Due to accounting convention, net income can fall out of alignment with cash flow. The cash flow statement reconciles the income statement with the balance sheet in three major business activities. These activities include operating, investing and financing activities. Operating activities include cash flows made from regular business operations. Investing activities include cash flows due to the buying and selling of assets such as real estate and equipment. Financing activities include cash flows from debt and equity. This is where analysts can also find the number of dividends paid andor dollar value of shares repurchased.

Functions and Importance of financial statements:

The following are some of the functions and importance of financial statements.

1. Importance of Financial Statements to Management: Management needs the financial statements for proper execution of managerial functions. If there is a correct and reliable information, the management can plan properly and perform the functions of operation and control very easily. The financial statements guide the management for effective use of capital employed and determine the level of credit obtained from the banks and financial-institutions. The well-drawn and properly constructed financial statements helps for effective policy formulation. Moreover, the management may examine and analyse the net results of different activities and the efficiency of employees concerned with those activities. The expansion activities of the business concern are determined on the basis of financial position and strength of the company.

2. Importance of Financial Statements to Government: The financial statements are highly useful to assess the tax liability of the business concern. The economic condition of a nation is identified by collecting such financial statements from various industrial sector. Both state and central government can find out whether the business concern is following rules and regulations or not. These statements provide a basis for framing new laws and amending the existing laws for regulating the business

3. Importance of Financial Statements to Banker: The bankers can find out the ability of the business to meet its obligations, short term and long-term solvency, credit worthiness and earning capacity. Besides, the bankers make comprehen-

sive analysis of customers' policies and plans. The extent of loan can be easily fixed by the banker on analysing the financial statements.

4. Importance of Financial Statements to trade Association: It provides service to its members i.e. business concern. The extent of service and types of services are determined on the basis of information contained in financial statements. They may develop standard ratios and design uniform system of accounts.

5. Importance of Financial Statements to trade Suppliers: The sales volume of the trade suppliers is increased if the financial statements are properly analysed and assess the financial position of the customers i.e. business concern. A customer is faithful and regular in payment of trade credit if his financial position is sound. The use of financial statements is very imperative since these statements can convey the delay in payment or regularity in payment and can suggest about customer's ability to make the payment in future.

6. Importance of Financial Statements to Stock Exchange: The shares and debentures of a company are traded in the stock exchanges. The value of shares and debentures are determined on the basis of financial position and credit worthiness of the company. The financial statements are giving correct information to fix the price for shares and debentures.

7. Importance of Financial Statements to Investors: Both present and prospective investors are reading the contents of financial statements. They assess the financial position of the company from a different angle. Long term solvency, earning capacity, prospects for growth, utilization of funds, sources of funds and managerial ability are identified from the financial statements. If the investor happens to be debenture holder, heshe studies the financial statements in such a manner whether the company is able to redeem the debentures at the date of redemption. A shareholder considers the liquidity of the company but the debenture holder considers the earning capacity of the company.

2. Research methodology

Research Methodology:

Research methodology is a way to systematically solve the research problem. It may be understood as a science of study how research is done scientifically. In this the various step that are generally adopted by the researcher in studying his research problem.

Research Design:

Research Design is the arrangement of condition for collection and analysis of data in manner that aims to combine relevance to the research purpose with the economy in procedure. Research Design is important primarily because of the increased complexity in the market as well as marketing approaches available to the researchers. A research design specifies the methods and procedures for conducting a particular study.

Method of Data Collection:

The data has been collected from the two-main source of namely

1. Primary data
2. Secondary data

Primary data:

Primary data is collected from financial statement of STUP Consultants.

Secondary data:

Secondary data was gathered from internet, journals and company website.

Statistical Tools Used (Percentage analysis):

1. Ratio analysis
2. Working capital statement
3. Gross profit ratio
4. Net profit ratio
5. Return on equity

Ratio analysis:

A ratio is the process of determining and presenting the relationship of items and groups of items in the financial statements. The ratios can be classified into the following types:

Profitability Ratio:

Profitability Ratio measured as an ability to make maximum profit from optimum utilization of resources by a business concern is termed as profitability.

Gross Profit Ratio:

This ratio is also known as Gross Margin or Trading Margin Ratio. Gross Profit Ratio includes the difference between sales and direct costs.

Gross Profit Ratio = (Gross Profit Net Sales) * 100

Net Profit Ratio:

It measures of management efficiency in operating the business successfully from the owner's point of view. Higher the ratio better is the operational efficiency of business concern. Net Profit Ratio = (Net Profit After Tax Net Sales) * 100

Return on Equity or Return on Net Worth:

This ratio signifies the return on equity shareholders' funds. The profit considered for computing the ratio is taken after payment of preference dividend. Return on Equity = (Net Profit After Interest and Tax Shareholder's funds) * 100

Activity Ratio or Turnover Ratios:

Activity ratios highlight the operational efficiency of the business concern. The term operational efficiency refers to effective, profitable and rational use of resources available to the concern.

Working Capital Turnover Ratio:

Working capital ratio measures the effective utilization of working capital. It also measures the smooth running of business. The ratio establishes relationship between cost of sales and working capital.

Working Capital Turnover Ratio = (Sales Net Working Capital)

Capital Turnover Ratio:

Managerial efficiency is also calculated by establishing the relationship between cost of sales or sales with the amount of capital invested in the business. Capital Turnover Ratio = (Sales Capital Employed)

Fixed Asset Turnover Ratio:

This ratio determines efficiency of utilization of fixed assets and profitability of a business concern. Fixed Asset Turnover Ratio = (Sales Net Fixed asset)

Solvency or Financial Ratio:

Solvency or Financial Ratios include all ratios which express financial position of the concern. The term financial position generally refers to short-term and long-term solvency of the business concern, including safety of different interested parties.

Current Ratio:

In order to measure the short-term liquidity or solvency of a concern, comparison of current assets and current liabilities is inevitable. Current ratio indicates the ability of a concern to meet its current obligations as and when they are due for payment. Current Ratio = (Current asset Current liabilities)

Debt Equity Ratio:

The debt equity ratio is determined to ascertain the soundness of the long term financial policies of the company and also to measures the relatives' proposition of outsider's funds and shareholders' funds investments in the company. Debt-Equity Ratio = (Total Long-term Debt Shareholder's Funds)

Debt to Total Funds Ratio:

This ratio gives same indication as the debt equity ratio as this is a variation of debt equity ratio. This ratio is the relationship between long term debts and total long-term funds. Debt to Total Funds Ratio = (Long-term Debt Total Funds)

3. Findings

Gross profit margin during the five years was fluctuating. In 2012-13 it was 10.94% and it has been decreased to 7.66%. The net profit ratio has been slightly increased to 6.65% during the financial year 2015-16 to 6.16% during 2014-15 which indicates that there is an improvement in the operational efficient of the business and it leads to the increase in the profitability of the firm. It has found that the return on equity during the year 2014-2015, the company shows 6.17% of ratio and it has risen to 6.4%. The Working capital in year 2012-13 it was 1.16%, in the successive year there was a slight increasing trend, but in the year 2015-16 it has been decreased to 1.03%. During the past five years Current ratio was in an increasing point, in the year 2013-14 it was increased to 7.44%, and in the year 2015-16 it has been decreased to 5.33%.

4. Suggestion

1. The current ratio of the company is below the standard ratio in all 5 years under study, hence it should be improved at least to the standard.

2. The gross profit ratio of the company has been increased, this can be done by taking steps to reduce the cost of sale, which have its own affect over the gross profit.

3. The working capital is constant between 1.16 – 1.03 during the 5 years.

4. The net profit shows it is increased but we found that the net profit ratio has been decreased. So, the company should consider increasing the sales in turn to increase the actual profit.

5. The company may take one of the measures for improving more profits, sales should be enhanced from into end through innovative marketing techniques.

6. The company needs to make some creative methods for efficient management by using its assets to generate earnings.

5. Conclusion

In the study of Financial Performance of STUP Consultant Pvt Ltd, it is clear that the company's financial performance is satisfactory. If the company utilizes its working capital then the company can go heights which it wanted to achieve. The comparative income statement shows increase in the current year of net profit and it depict the company's current profit position. To improve the efficiency the company will strive for better performance and increase the market share the company. Financial performance can improve the financial strength of company. The suggestions provided through the study will help the company to improve the operational performance efficiently.

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