Chapter 4
Financial Performance Analysis
– A Conceptual Framework
4.1 Introduction

Developing financial statements is only the first step in assessing the financial health of your business. Next it is important to calculate financial performance measures and compare them to similar businesses or industry standards. The measurement of business performance is more complex and difficult. According to P. C. Tripathi (1991)\(^1\) “The assignment of numerals to characteristics of objects, persons, states or events according to rules about is misused is not the object person state or event itself but some characteristics of it. When objects are courted for example object is not measured in itself but only it’s characteristics of being present. People cannot be measured only their age, height, weight or some other characteristics.”

Understanding Financial Performance Measures is helpful to calculate the measures that are relevant to the business. Interpreting Financial Performance Measures is helpful to assess financial strengths and weaknesses of the business and also in the process of Building Equity in the Business.

4.2 The Concept of Performance

The word ‘Performance is derived from the word ‘parfourmen’, which means ‘to do’, ‘to carry out’ or ‘to render’. It refers the act of performing; execution, accomplishment, fulfillment, etc. In border sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished.

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In the words of Erich Kohlar (1979)\textsuperscript{2} “The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm’s success, conditions, and compliance.

The opinion of Robert Alban (1978)\textsuperscript{3} about performance is “The word ‘performance’ is used to mean the efforts extended to achieve the targets efficiently and effectively. The achievement of targets involves the integrated use of human, financial and natural resources.”

According to Erich L. Kohlar (1979)\textsuperscript{4} “The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time; often with reference to past or projected costs efficiency, management responsibility or accountability or the like.”

On the basis of the above definitions, it can be said that the word ‘Performance’ not only refers to the presentation of something but it also exhibits the quality and results achieved by the management of an enterprise. It takes into account the accomplishment of objectives and goals set for an enterprise, keeping in view the comparison of the present success with the past. However in the context of the present study, it covers financial, cost, personnel and social aspects. Thus we can say that the overall conclusion of the activities of an enterprise is called ‘Performance’.

4.3 Areas of Performance

There are areas where the performance can be improved by effective assessment of various activities performed by a business enterprise in different areas of operations. The areas of operations may be termed as the areas of performance. The important areas are as follows:

\begin{itemize}
\item \textsuperscript{2} Erich L. Kohlar, \textit{A Dictionary for Accounts (4\textsuperscript{th} edition)}. New Delhi: Prentice - Hall of India Pvt. Ltd., 1979, p.315.
\item \textsuperscript{3} Robert Albans, \textit{Managing towards Accountability for performance}. 1978, p. 13-14.
\item \textsuperscript{4} Kohlar, op. cit.
\end{itemize}
4.3.1 Service Production and Productivity Performance

Service Production is the most important area of performance, and the productivity is the systematic analysis for evaluating the service production function. The service production data can be performed as compared to other competitive banking companies of the banking industry. The service production performance of the banking industry can be compared for different years with the competitive industries.

4.3.2 Profitability Performance:

Profitability is the ability of an enterprise to earn profits. The bank management is vitally interested in profit as it is often used as performance measure. Measurement of profitability is the overall measurement of performance. Profit is also important to financial institutions, bankers and creditors. Moreover, even a layman also assesses the performance of a business enterprise by its ability to earn profit. Profitability performance can be made by computing and interpreting various profitability ratios.

4.3.3 Liquidity Performance:

By checking the fluctuations most probably in current assets, the researcher can take the estimate of liquidity performance.

4.3.4 Working Capital Performance:

As soon as the heart gets blood, it circulates the same in the body. In the same manner working capital funds are obtained and circulated in a business. As and when this circulation stops, the business becomes lifeless. So the analysis of working capital statements and various ratios of its kind may depict required information for the purpose.

4.3.5 Fixed Assets Performance:

According to Foulke, Roy A.5 “Some part of the capital of every master artificer or manufacturer must be fixed in the instrument of his trade.”

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As fixed assets in nature are long term tangible assets, therefore, they should basically be financed through long-term sources. In this respect, the ratio of fixed assets to net worth can be calculated to study financing of fixed assets. This ratio is very important as it shows that owners have provided enough funds to finance fixed assets.

4.3.6 Social Performance:

The value of all the resources concerned with the banking industry is called social performance. They may be men, material, money and machines. All these resources which are to be used for the welfare of society and banking industry are included to evaluate social performance. The social performance of any bank can be evaluated by considering different parties like government, depositors, financial institutions, investors, account holders and employees. All these parties are members of the society. Some important accounting ratios can be helpful to know the contribution made by the banks to the society.


However in the present study financial health of Bombay Stock Exchange and National Stock Exchange has measured from the following perspectives:

1. Activity Analysis
2. Profitability Analysis
3. Liquidity Analysis
4. Fixed Assets Analysis
5. Working Capital Analysis

4.4 The Measurement of Financial Performance

After knowing the meaning of performance and finding which area is to be analyzed, the analyst has to determine the measure for its analysis.

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Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

According to Michael Mascon (1981)\textsuperscript{7}, “Performance is dependent on effort, abilities, traits and the individual’s perception of his role.” While measuring the performance of a firm or an enterprise we need a measuring unit. Human aims and beliefs are mostly realized through the establishment of diverse kinds of associations. All associations were established for fulfillment of some goals and objectives. Thus association needs performance measurement to find out as to how much is organization has achieved by its course of action for its targets.

According to Eldon S. Hendriksen\textsuperscript{8}, “The primary focus of financial reporting is information about an enterprise’s performance provided by measures of earnings and its components.”

In order to analyze financial statement properly, users must have a basic understanding of the concept and principles underlying their preparation. Without such an understanding users will not recognize the limits of financial statements.

According to Stanley B.\textsuperscript{9} “The financial manager must know how to interpret and use these statements in the allocation of the firm’s financial resources to generate the best return possible in the long run. Finance is the link that integrates the economical theory with the numbers of Accounting.” Measurement of performance through the financial statement analysis provides a good knowledge about the behaviour of financial variables for measuring the performance of different units in


the industry and to indicate the trend of improvement or deterioration in the organizations.

4.5 The Financial Performance Analysis

The business itself as well as various interested groups such as managers, shareholders, creditors, tax authorities, and others seeks answers to the following important questions:

1. What is the Financial Position of the firm at a given point of time?
2. How is the Financial Performance of the firm over a given period of time?\(^{10}\)

These questions can be answered with the help of financial analysis of a firm. Financial analysis involves the use of financial statements. A financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose 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 a series of activities over a given period of time, as in the case of an Income Statement.

“The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm’s position and performance.”\(^{11}\) Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business.

The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account. The first task is to select the information relevant to the decision under consideration from the total information contained in


the financial statements. The second is to arrange the information in a way to highlight significant relationships. The final is interpretation and drawing of inferences and conclusions. In short, “financial performance analysis is the process of selection, relation, and evaluation.”

4.6 Significance of Financial Statements Analysis

Business is mainly concerned with the financial activities. In order to ascertain the financial status of the business every enterprise prepares certain statements, known as financial statements. Financial statements are mainly prepared for decision making purposes. But the information as is provided in the financial statements is not adequately helpful in drawing a meaningful conclusion. Thus, an effective analysis and interpretation of financial statements is required.

Analysis of financial statements is an attempt to assess the efficiency and performance of an enterprise. Thus, the analysis and interpretation of financial statements is very essential to measure the efficiency, profitability, financial soundness and future prospects of the business units. Financial analysis serves the following purposes:

- **Measuring the profitability**

  The main objective of a business is to earn a satisfactory return on the funds invested in it. Financial analysis helps in ascertaining whether adequate profits are being earned on the capital invested in the business or not. It also helps in knowing the capacity to pay the interest and dividend.

- **Indicating the trend of Achievements**

  Financial statements of the previous years can be compared and the trend regarding various expenses, purchases, sales, gross profits and net profit etc. can be ascertained. Value of assets and liabilities can be compared and the future prospects of the business can be envisaged.

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• Assessing the growth potential of the business

The trend and other analysis of the business provide sufficient information indicating the growth potential of the business.

• Comparative position in relation to other firms

The purpose of financial statements analysis is to help the management to make a comparative study of the profitability of various firms engaged in similar businesses. Such comparison also helps the management to study the position of their firm in respect of sales, expenses, profitability and utilising capital, etc.

• Assess overall financial strength

The purpose of financial analysis is to assess the financial strength of the business. Analysis also helps in taking decisions, whether funds required for the purchase of new machines and equipments are provided from internal sources of the business or not if yes, how much? And also to assess how much funds have been received from external sources.

• Assess solvency of the firm

The different tools of an analysis tell us whether the firm has sufficient funds to meet its short term and long term liabilities or not.

4.7 Beneficial Parties from Financial Statement Analysis of Stock Exchange

There are various advantages of financial statements analysis. The major benefit is that the investors get enough idea to decide about the investments of their funds in the specific company. Secondly, regulatory authorities like International Accounting Standards Board can ensure whether the company is following accounting standards or not. Thirdly, financial statements analysis can help the government agencies to analyze the taxation due to the company. Moreover, company can analyze its own performance over the period of time through financial statements analysis.

The need and importance of performance analysis rise from the viewpoint of different parties, which are actively interested in the affairs of an enterprise. Analysis of financial statements has become very significant due to widespread interest of various parties in the financial results of a business unit. The various parties interested in the analysis of financial statements are:
• **Management**

According to **Erich A. Helfert**\(^{13}\), “Managers are responsible for efficiency, current and long term profit from operations and effective development of capital and other resources in the process.” Performance analysis may help the management in evaluating the effectiveness of its own plans and policies. The managements can measure the effectiveness of its own plans and policies, determine the advisability of adopting new policies and procedures and document to owners as a result of their managerial efforts by doing performance appraisal. The management is interested in the financial position and performance of the enterprise as a whole and of its various divisions. It helps them in preparing budgets and assessing the performance of various departmental heads.

• **Employees and Trade Unions**

Employees of the stock exchanges are interested in the profits and the financial position of a stock exchange. The employees measure the efficiency of the stock exchange with the satisfactory profit margin and adequate cash flow. The employees can compare the past performance and the present performance of stock exchange by performance appraisal.

• **Investors**

Investors are interested in present and expected future earnings as well as stability of these earnings. Investors are the real investors of any enterprise. In case of stock exchange, the investors can know profitability, productivity and overall efficiency of the stock exchange by studying financial performance analysis of stock exchange. Shareholders or proprietors of the business are interested in the well being of the business. They like to know the earning capacity of the business and its prospects of future growth.

• **Bond holders and Lenders**

Bond holders are interested in the cash-flow ability of the firm mainly concerned with the appraisal of firm’s capital structure, the major sources and uses of funds, profitability over time, and projection of future profitability. Lenders to the

\(^{13}\) Kohler, op. cit.
business like debenture holders, suppliers of loans and lease are interested to know short term as well as long term solvency position of the entity.

- **Government and its agencies**

  The government and its agencies are keen interested in studying the performance of stock exchanges as a whole. By studying the performance of stock exchanges, the government can assess the growth of industries and economy. Moreover the government can take decision about tax structure and incentives for stock markets. Government and their agencies need financial information to regulate the activities of the enterprises/industries and determine various policies. They suggest measures to formulate policies and regulations.

- **Society**

  In the Society, there are various agencies like media, banks, economists, tax consultants and authorities, awakened citizens who are interested in the performance of stock exchanges. Their interest in the performance of stock exchange becomes the interest of the society. The society at large also expects to know about the social performance such as environmental obligations, employment avenues and social welfare etc.

- **Suppliers and trade creditors**

  The suppliers and other creditors are interested to know about the solvency of the business i.e. the ability of the company to meet the debts as and when they fall due. Trade creditors are interested in the liquidity of the firm (appraisal of firm’s liquidity).

- **Researchers**

  They are interested in financial statements in undertaking research work in business affairs and practices.

- **Stock exchange**

  Financial Performance Analysis plays an important role in providing so many useful information to the stock exchange management as it is inevitably needed for planning, control and decision-making. Decisions always relate to what has to be done immediately, in near future and in the long run. For this, the stock exchange
managements require various types of information, both qualitative and quantitative. Financial performance analysis has taken on increasingly the task of providing the quantitative information.

Thus, it can be said that different parties have interest in financial statements for different reasons.

### 4.8 Types of Financial Statement Analysis

Financial performance analysis can be classified into two main categories on the basis of material used and modus operandi presented in chart 4.1.

#### Chart 4.1

**Types of Financial Statement Analysis**

1. **Material Used**
   - External Analysis
   - Internal Analysis

2. **Modus Operandi**
   - Horizontal Analysis
   - Vertical Analysis

### 4.9 Tools and Techniques of Financial Performance Analysis

For measurement of financial performance of a business the financial statements are analysed. An analysis of financial performance can be possible through the use of one or more tools and techniques of financial analysis. These tool and techniques are classified in three main categories:

1. Accounting techniques
2. Statistical techniques
3. Mathematical techniques

#### 4.9.1 Accounting Techniques

Accounting techniques are also known as financial techniques. Various accounting techniques can be used for the purpose of financial analysis. The
Measurement of profitability is as essential as the earning of profit itself for a business firm. The profitability of a business firm can be evaluated or measured from number of perspectives, and there are various quantitative as well as qualitative methods that can be employed for this purpose. The suitable accounting techniques for the financial analysis of stock exchanges are listed below and out of them the techniques which have been used in the present study are discussed:

- **Comparative Financial Statement Analysis**
  - Comparative Balance Sheet
  - Comparative Income statement
- **Common-Size Financial Analysis**
- **Value Added Analysis**
- **Correlation and Regression Analysis**
- **Analysis of Time Series**
- **Cross-sectional analysis**
- **Cross-sectional cum time series analysis**
- **Ratios Analysis**

The ratios analysis is the most powerful tool of financial statement analysis. Ratios simply mean one number expressed in terms of another. A ratio is a statistical yardstick by means of which relationship between two or various figures can be compared or measured. According to Hingorani, “Accounting ratios are relationships expressed in mathematical terms between figures with a cause and effective relationship or which are connected with each other in some manner or the other.” Ratio may be based on figures in the profit and loss A/c or in the balance sheet or in both. So the Ratio Analysis is the study of specific relationship and forms the heart of the statements analysis.

- **Trend Analysis**

  Trend analysis indicates changes in an item or a group of items over a period of time and helps to drown the conclusion regarding the changes in data.

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Analysis is immensely helpful in marking comparative study of the changes in an item of groups of items over a period of time and to make conclusions regarding the change in date. For this purpose, a base year is selected and the amount of the item-relation to the base year is taken equal to a hundred and Index number are computed for other years based on the amount of item relating to the base years based on the amount of that item in those years. It shows the direction in which concern is going.

4.9.2 Statistical Techniques

Various statistical techniques are used to provide a more accurate and scientific measurement form profitability analysis. Numerical analysis does involve the use of various statistical techniques. Some of the important statistical techniques which are suitable for the financial analysis of stock exchanges are listed below and out of them the techniques which have been used in the present study are discussed:

I. Measures of Central Tendency

Measures of central tendency are also known as statistical averages. It is the single value which represents the whole series and is contain its measure characteristics. The main objective is to give a brief picture of a large group, which it represents, and to give a basis of comparison with other groups.

Arithmetic mean, median, mode, geometric mean and harmonic mean are the main measures of tendency. Mean, also known as arithmetic average, is the most common measure of central tendency. It is defined as the value which obtained by dividing the total of the values of various given items in a series by the total number of items.

> Mean (\(\bar{x}\))

The mean is obtained by dividing the sum of observed values by the number of observations, \(n\). Although data points fall above, below, or on the mean, it can be considered a good estimate for predicting subsequent data points. The formula for the mean is:

Merits:

- It is rigidly defined.
- It is easy to calculate and simple to follow.
- It is based on all the observations.
- It is determined for almost every kind of data.
- It is finite and not indefinite.
- It is readily put to algebraic treatment.
- It is least affected by fluctuations of sampling.

Demerits:

- The arithmetic mean is highly affected by extreme values.
- It cannot be computed accurately if any item is missing.
- The mean sometimes does not coincide with any of the observed value.

II. Measures of Dispersion

Average is the central value which represents the entire series but it fails to give any idea about the scatter of the values of items of a series around the true value of average. In order to measure this scatter, measures of dispersion are calculated. Measures of dispersion, indicates the extent, to which the individual values fall away from the average or the central value. Range, mean deviation and standard deviation are the important measures of dispersion.

These measures can be stated in two ways. One method of statements shows the absolute amount of deviation, while the other presents the relative amount of deviation. For purpose of comparison, the absolute amount of a measurement is not always as valuable as an expression of the relative amount. The measures of dispersion, which are expressed in terms of the original units of a series, are termed as ‘absolute measure’. Relative measures of dispersion are obtained as ratios or percentages known as ‘coefficient’ which are pure numbers independent of

\[
\bar{X} = \frac{\text{Sum of Observation } (\sum x_i)}{\text{Number of Observations } (n)}
\]

measurement. “Percentages of variation are known as co-efficient of dispersion or co-efficient of variation. They state the degree of variation.” Therefore, for the purpose of comparison of variability the relative measures of dispersion should be computed.

- **Standard Deviation (σ or SD)**

  The standard deviation gives an idea of how close the entire set of data is to the average value. Data sets with a small standard deviation have tightly grouped, precise data. Data sets with large standard deviations have data spread out over a wide range of values. The formula for standard deviation is:

  \[ \sigma = \sqrt{\frac{1}{n-1} \sum (X - \bar{X})^2} \]

**Merits:** The standard deviation possesses most of the characteristics which an ideal measure of dispersion should have. Thus,

- Standard deviation is rigidly defined and its value is always definite.
- It is based on all the observation of the data.
- It is amenable to algebraic treatment and possesses many mathematical properties. It is on account of these properties that standard deviation is used in many advanced studies.
- It is less affected by the fluctuations of sampling than most other measures of dispersion.
- The squaring of deviations makes them positive and the difficulty about algebraic signs which was experienced in case of mean deviation is not found here.

**Demerits**

- Standard deviation is not easy to calculate, nor is it easily understood. In any case it is more cumbersome in its calculation than either quartile deviation or mean deviation.
- It gives more weight to extreme items and less to those which are near the mean, because the squares of the deviations, which are big in size, would be proportionately greater than the squares of those deviations which are
comparatively small. Thus, deviation 2 and 8 are in the ratio of 1:4 but their square i.e, 4 and 64 would be in the ratio of 1 : 16.

**Uses:**

Despite the drawbacks mentioned above the standard deviation is the best measure of dispersion and should be used wherever possible. Just as mean is the best measure of central tendency (leaving exceptional cases) standard deviation is the best measure of dispersion, excepting a few cases where mean deviation or quartile deviation may give better results.

- **Co-efficient of Variance (CV)**

  The coefficient of variation expresses the standard deviation as a percentage of the sample mean. This is useful when interest is in the size of variation relative to the size of the observation, and it has the advantage that the coefficient of variation is independent of the units of observation. A value for saying there is too much variation seems to be subject dependent. In an Internet search we found three applications with different values.

  \[
  \text{Co-efficient of variance (CV\%)} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100
  \]

**Advantages**

The coefficient of variation is useful because the standard deviation of data must always be understood in the context of the mean of the data. Instead, the actual value of the CV is independent of the unit in which the measurement has been taken, so it is a dimensionless number. For comparison between data sets with different units or widely different means, one should use the coefficient of variation instead of the standard deviation.

**Disadvantages**

- When the mean value is close to zero, the coefficient of variation will approach infinity and is hence sensitive to small changes in the mean. This is often the case if the values do not originate from a ratio scale.
• Unlike the standard deviation, it cannot be used directly to construct confidence intervals for the mean.\textsuperscript{17}

\textbf{Compound Annual Growth Rate (CAGR)}

CAGR isn't the actual return in reality. It's an imaginary number that describes the rate at which an investment would have grown if it grew at a steady rate. CAGR is the year-over-year growth rate of an investment over a specified period of time.

The compound annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.\textsuperscript{18}

\[
\text{CAGR} = \left[ \frac{\text{Ending Value}}{\text{Beginning Value}} \right]^{\frac{1}{n}} - 1
\]

\textbf{III. Index Numbers}

According to \textbf{Lawrence J. Kaplan}\textsuperscript{19} an index number is a statistical measure of fluctuations in a variable arranged in the form of a series and using a base for making comparison. The index number is used to represent diverse changes in a group of related variables. It represents changes in terms of rates, ratios or percentages called ‘relatives’ such as ‘price relatives’ (measures relative changes in prices), ‘quantity relatives’ (measures relative changes in quantity) etc. Since it represents an average of relative changes in a group of related variables relevant to a given phenomenon they are often described as ‘barometers of economic change’. In the present study two types of index numbers have been used which are:

\textbf{Simple Index.}

• Simple Index Number: It is calculated to study the trend of variables by taking one year as base year to study the percentage increase-decrease in the amount.

• Chain Based Index Number: It is used to measure and compare the change in the variables from the previous year.

\textsuperscript{17}http://en.wikipedia.org/wiki/Coefficient_of_variation accessed on March 12, 2011.

\textsuperscript{18}http://www.investopedia.com/terms/c/cagr.asp#ixzz2JuV9L8KV

IV. Graphical Presentation/Analysis

It is said that “A Picture Worth a Thousand Words.” The transformation of data through visual methods like graphs, diagrams, maps and charts is called graphical representation of data. Graphics, such as maps, graphs and diagrams, are used to represent large volume of data.

Diagrams and graphs are visual aids, which give a bird’s eye view of a given set of numerical data. They present the data in simple readily comprehensible and intelligible form. Graphical presentation of statistical data gives a pictorial effect instead of just a mass of figures. They depict more information than the data shown in the table which through light on the existing trend and changes in the trend of the data.20

Importance

- If the information is presented in tabular form or in a descriptive record, it becomes difficult to draw results.
- Graphical form makes it possible to easily draw visual impressions of data.
- The graphic method of the representation of data enhances our understanding.
- It makes the comparisons easy.
- Besides, such methods create an imprint on mind for a longer time.
- It is a time consuming task to draw inferences about whatever is being presented in non–graphical form.
- It presents characteristics in a simplified way.
- These makes it easy to understand the patterns of growth, fluctuations, etc.

V. Statistical Tests

- Non-Parametric Tests: Chi square test, Sign test, Man-whitny test, Krushkal–Wallish test, Wilcoxon Test,
- Parametric Tests: Z-test, t-test, F-test, ANOVA

t-test

Out of these test, in the present study t-test out of Parametric tests has been applied. The t-test applies only in case of small samples (n ≤ 30) when population variance is unknown. It is based on t-distribution and is considered appropriate test for judging the significance of difference between the means of two samples in case of small sample when population variance is not known. In case of two samples paired t-test is used for judging the significance of the mean of difference between the two related samples. It can also be used for judging the significance of the coefficients of simple and partial correlations.

The relevant test statistic, t, is calculated from the sample data and then compared with its probable value based on t-distribution (from the table) at a specific level of significance for concerning degrees of freedom for accepting or rejecting the null hypothesis.

\[ t = \frac{X - \mu}{\sqrt{\sigma/n}} \]

Reject: \( t > \text{Table value} \) and Accept: \( t \leq \text{Table value} \)

4.9.3 Mathematical Techniques

Financial analysis also involves the use of certain mathematical tools such as Programme Evaluation and Review Techniques (PERT), Critical Path Method (CPM), and Linear Programming etc. However, they are not useful for the present study.

4.10 Limitations of Financial Statement Analysis

Although financial statement analysis is highly useful tool, it has two limitations. These two limitations involve the comparability of financial data between companies and the need to look beyond ratios.

Comparison of Financial Data

Comparison of one company with another can provide valuable clues about the financial health of an organization. Unfortunately, differences in accounting methods between companies sometimes make it difficult to compare the companies' financial data. For example if one firm values its inventories by LIFO method and
another firm by the average cost method, then direct comparison of financial data such as inventory valuations and cost of goods sold between the two firms may be misleading. Sometimes enough data are presented in footnotes to the financial statements to restate data to a comparable basis. Otherwise, the analyst should keep in mind the lack of comparability of the data before drawing any definite conclusion. Nevertheless, even with this limitation in mind, comparisons of key ratios with other companies and with industry average often suggest avenues for further investigation.

- The Need to Look Beyond Ratios

An inexperienced analyst may assume that ratios are sufficient in themselves as a basis for judgment about the future. Conclusions based on ratios analysis must be regarded as tentative. Ratios should not be viewed as an end, but rather they should be viewed as starting point, as indicators of what to pursue in greater depth. So in the present study the researcher has also used in addition many other data analyzing tools too to overcome from these drawbacks.

4.11 Tools and techniques used in the present study

In the present study Mean – the ideal measure of central tendency, Standard Deviation – the ideal measure of dispersion and Co-efficient of Variance – the ideal measure of relative dispersion, Compound Annual Growth Rate, Graphical Analysis and Trend Analysis through Simple Index and Chain Based Index have been used. From accounting tools Ratio Analysis have been chosen. To know whether difference is significant or not t-test for significant difference between two means has been applied.

4.12 Conclusion

The main objective of preparing financial statement is to show the result achieved by an enterprise through its operations and activities for the particular period or a particular date. Measurement of performance through the financial statement analysis provides good knowledge about the behaviour of financial variables for measuring the performance of different units in the industry of an enterprise and to indicate the trend of improvement in the organizations.