Welcome student.

In this session we'll be covering.

You need to nature and techniques

of financial statement analysis.

The module name is common

size statement analysis.

The outline of this module

is meaning preparation,

an interpretation of common size

statement uses a common size statement,

merits and demerits,

and problem on common size,

income statement and balance sheet.

After completing this module you

will be able to understand and

explain common size statement.

An is interpretation and will

be able to prepare an interpret

the common size statement.

Let us know the meaning

of common size statement.

Common size statements are the

statements in which the financial

data is presented in the form of

percentages taking a common base.

Now, for example,

in income statement,

the sales is taken as a common

base that is 100%.

And in balance sheet the asset

or the equity and liabilities.

Side total is taken as a common

base that is 100%.

Let us know the uses of common

size statement.

It helps the businessman in understanding

the fluctuations in profit in

relation to the sales obtained.

It allows for easy analysis

between companies or between

period for the same company.

It enables to compare income

statements and balance sheets

of two or more periods.

It recognizes the changes happening

in the financial statement of the

organization which will help investors.

In making decisions about investing

in the business in the future.

The merits of common size

statements are as follows.

It is simple and easy to understand.

It helps to develop a time

series an its analysis of each

element of financial statement.

It is very easy to compare

into form an intro form,

performance and financial position with

the help of common size statement.

The demerits are,

it does not help in decision making

process as it does not depict the

effect of change in the price

level of different elements in

like raw material wages etc which

leads to increase and decrease in

the cost of goods sold, value,

expenses etc.

It can be misleading for business

that is impacted by seasonal

fluctuations or business cycles.

And the last if accounting standards

applied or methods of accounting is

changed between four different years,

or if these are different firms,

then it does not provide a true comparison.

Now just refering to the to the balance,

profit and loss account and balance

sheet will not enhance the company's

management in decision making process.

For this they need to do financial

analysis by making use of different

financial analysis tools and one of

search tool is common size statement.

Now with the example or with this

problem will come to know how.

Analysis And interpretation can be done

now just look at the this problem,

the particulars and the amount.

So net sales is 18.

Let's purchases arguments, salaries,

rent and the provision for taxes.

25% with the help of this.

Common size income statement for the

year ending on 31st March 2020 is prepared.

No.

SB know that in this income statement

we take net sales as a base.

Now here revenue from operation

that is net sales is 18 legs.

Now 18 legs is taken as a base that is 100%.

Now we need to study all other items

in this income statement by taking

into account this net sales as a base.

So in this problem other income is 35,000, so if 18,018 legs is 100%,

how much is 35,000?

It gives us 1.94%.

Likewise,

all the expenses are also being calculated.

Now your the expenses purchase

of stock in trade is 5 legs,

which comes to 27.78%.

In relation to net sales.

So if Company wants to take a

decision regarding the sales whether

to cut down on sales or cut down

on the amount of sales without

compromising on the quality standards,

they can take a decision on this.

So the total expenses.

Comes to 10.

Let's 45,000,

which amounts to 58.06%,

and after calculating provision for

tax at the rate of 25% now this

25% is calculated on seven leg,

90,000 on that 25% gives us one

leg 97,000 which comes to 10.94%.

So after deducting the tax at the end,

company is left up,

left out with a profit of that

is profit after tax,

that is 5 flags 93,000 an resulting

in 232.94% which is quite good.

Now a student here.

When there is more than one item.

We need to provide a working

note now for other expenses.

You have just shown it in the note column.

It is written as one,

so this note column gives

us the working note number,

so it other expenses has more than one item,

so it has been shown in the

working note like this.

OK, the total we have to directly take

in the other expenses amount column.

So how to interpret with

this solution number one?

What we can say is Company has adopted

cost control measures which has led the

company into a profitable position.

The company's expenses on administration,

an non operating expenses,

are also under control.

The company has also tried to increase

his revenue from other sources.

Now let us see.

The balance sheet common size balance sheet.

So here is the problem.

So liabilities the total is 22 legs.

A set also is 22 legs and this is how we

prepare the common size balance sheet

of a limited as on 31st March 2020.

So in the balance sheet,

equity and liability is taken as a base.

That is 100% an asset is taken as a

base in order to do the comparison

of all the items on the asset side.

So you're the equity share capital

amounts to 12 legs, 50,000.

So when you compare this amount with 22 legs,

it is like this.

If 22 legs is 100%,

how much is 12 legs 50,000?

It gives us 56.81%.

Then preference their shares are given

reserves and surplus is it comes to

13.66% debentures that is non current.

Liabilities is 2 legs which amounts to

9.09% and the current liabilities companies

having to like 50,000 which is 11.36%.

Now coming to the sets sets,

the fixed asset is 11 let's which

takes away 50% of the total assets.

Then no,

there are non current investments

which are 55 legs which is coming to

22.71% and current assets are six legs.

We chose a very good relation even when

we compare it with the current liabilities.

Current liabilities are just two LX

5000 where its current asset is 6 legs.

So what we can interpret is the

capital structure of the company.

Consist of more of equity capital.

Which is almost.

57% what we can see.

Which means company has stronger

equity base and trading on peak equiti.

The current financial position of the

company is very good as the current

assets are more than current liabilities.

The company is able to meet its long

term financial requirement that is

purchase of fixed assets by long term funds,

becauses companies having 50% fixed

assets which is funded through

making use of long term capital.

To conclude with.

The analysis done by using common size

statement is called as vertical analysis.

All static analysis becauses it is a

study of relationship between accounts

as existing at a particular date.

Common size statement as a tool of

financial statement analysis can be

used to analyze data for a year and

also for more than one year.

For better understanding of

the financial performance and

efficiency of the organization.

These are the references done.

Thank you students.