Comparative analysis of balance sheet example

Each enterprise must prepare a financial note that summarizes its performance and financial position over a given period. These accounts primarily include income statements, balance sheets and cash flow statements. The purpose of these accounts is therefore to ascertain the profitability and financial stability of the company. However, the detailed information reflected only in such statements is not sufficient to draw meaningful management conclusions. A detailed financial analysis and interpretation of these accounts is therefore necessary, using various instruments and techniques. This analysis helps to understand the relationship between the different components represented in each of these statements. Thus, one of the instruments normally used to analyse the financial statements is to establish comparative financial statements. Other methods include: This article talks about Comparative Financial Statements Analysis. Thus, let's understand: what are comparative financial statements,how such statements are prepared and what are these comparative statements important. What are comparative financial statements? The preparation of comparative financial statements is the most commonly used method of analysis of financial statements. This technique determines the profitability and financial position of the company by comparing the financial statements for two or more periods of time. This method is therefore also called horizontal analysis. As a general rule, the income statement and balance sheets are prepared in a comparative manner for the purpose of carrying out such an analysis. In addition, a provision has been added for comparing the financial data presented in such accounts. This applies to the use of the same accounting principles when preparing each of the comparative accounts. If the same accounting principles are not respected for the preparation of such accounts, the difference should be disclosed in footnote below. It also reveals the extent to which assets and liabilities have changed during such periods. In addition, such a statement helps managers and business owners to identify trends in the different business indicators underlying the business. What to study by analyzing the comparative balance sheet? The owner of the enterprise or the financial manager should study the following aspects of the comparative balance sheet:Working capital refers to the excess of working capital over short-term liabilities. This helps the financial manager or the business owner to learn about the company's liquidity situation.2. Changes in long-term assets, liabilities and capital The share of financial whether the owner of the enterprise is to analyse, is the change in the company's fixed assets, long-term liabilities and capital. This analysis helps each interested member state to be interested. Working capital refers to excess of current assets over short-term liabilities. This helps the financial manager or the owner of the company to learn about the company's liquidity situation. Measures to prepare a comparative balance Sheet First, indicate the absolute figures for assets and liabilities relating to accounting periods considered as periods of analysis. These amounts are listed in columns I and II of the reference balance. Find out the absolute changes in balance sheet items. You do this by subtracting the previous year's inventory amounts from the current year. This increase or decrease in absolute amounts is mentioned in column III of the comparable balance. Finally, calculate the percentage change in assets and liabilities for the current year compared to the previous year. These percentage changes in assets and liabilities are mentioned in column V of the reference balance sheet. Percentage change = (Absolute increase or decrease)/Absolute figure of the previous year's item) * 100So, we understand the comparative balance sheet using the example. Note the following balance sheets of M/s Kapoor and Co as at 31 December 2017, 2017 and 31 December 2018. M/s Kapoor and Co. balance sheet as at 31 December 2017 and 31 December 2018. as at 31 December and 31 December 2017, the 2018.As. As at 31 December 2004, the comparable balance sheet shows that the capooras and Co. working capital decreased by Rs 35 in 2000 in 2018. Such changes are not now negatively affected by M/s Kapoor and Co. liquidity position. This is because working capital has decreased by 33.9%, while short-term liabilities have decreased by 51.5%. Secondly, Kapoor and Co. balance sheet has decreased by 91.5%. This indicates a negative cash position for the company. In addition, it points to the fact that it may be difficult for the company to meet its short-term obligations. Further, long-term debt to M/s Kapoor and Co. has increased by 62.5%. On the other hand, the owner's equity has improved by only 34 %. This indicates that the company is too dependent on external lenders, thus posing a high financial risk to the company. Finally, the company's fixed assets increase significantly. Consequently, fixed assets increased by Rs 79 000 or 64.9 % between 2017 and 2018. This was made on the basis of the huge addition made by the company during the period considered. Factories and machines increased by Rs 95,200, which is 153.5%. Such additional machines bring incredible improvements production capacity during the year. These expenses were provided by the owners of the company and external lenders. Comparative income statementAuided profit or loss account shows the performance of the company over several accounting periods. This helps the business owner compare business performance over different time periods. In addition, such a report helps to analyse changes in the profit or loss account in a detailed analysis. This helps the business owner understand trends and evaluate the performance of the business over different time periods. In addition to comparing your company's income statements over different time periods, the business owner can also compare the performance of his competitor's business. This analysis thus helps the company owner to compare its business activities with other companies in the sector. So, business owners can also understand the different causes that lead to changes in different accounting periods. This is achieved by comparing the company's performance over several accounting periods. What to study when analyzing the comparative income statement?1. Comparison of selling and selling of commodity costs In the reporting periods of sale should be compared with changes in the cost of goods sold for the same accounting periods.2. Changes in operating profitChange operating profit must be analysed.3. Profitability of the companySusquireing of the company's overall profitability, taking into account changes in net profit during the reporting periods. Measures to prepare comparative profit or loss accountsSo show absolute figures for goods such as cost of goods sold, net sales, selling expenses, office expenses, etc., relating to accounting periods considered as analysis periods. These amounts are listed in columns I and II of the comparative profit or loss account. Learn about absolute changes in the calculation of items in the above items. You do this by subtracting the previous year's inventory amounts from the current year. This increase or decrease in absolute amounts is mentioned in column III of the comparative profit or loss account. Finally, calculate the percentage change in the items in the profit or loss account for the current year in relation to the previous year. This percentage change in the item is mentioned in column V of the comparative profit or loss account. Now, in the light of the above, let us try to understand how comparative assertion is interpreted by way of example. Consider the following profit or loss account for M/s Singhania for the years ended 31 December 2017, 2017 and December 31. 31, 2018.As resulting from the above comparative profit or loss account, in 2018 sales of M/s Singhania increased by Rs 20 400 compared to 2017. However, the cost of goods sold to the company increased by only Rs 15 000 during the same period. If you see carefully, sales increased by 12%, while the cost of goods sold increased by 14.3%. Thus, M/s Singhania's gross margin did not increase significantly. There may now be several reasons for accounting for lower gross margins during the year: the increase in the cost of sellingToo, the higher the increase in the cost of goods sold can be either increased sales or higher raw material costs. Moreover, it is obvious that the cost of the goods sold to the company improved as a result of the increased sales. This is because sales increased during the year. The sales value would now have increased significantly if the company had made a sale at the previous sales price. But this is not the case, because the value of the sale does not change to a greater extent. This indicates that the additional sale was made at a price below the sales price. In addition, this analysis is confirmed by the increase in the company's advertising expenses for 2018. They increased by 33 %, which is much higher than the increase in net sales, which was only 12 %. Thus, this whole scenario indicates that it was quite difficult to sell goods in 2018. Also, this scenario could be the result of new product launch. In such a case, the company had to spend a huge amount on advertising and reduce the sales price for entry. Other income growth and other expendituresAre significantly increased Other income in both absolute and relative terms. In addition, other expenditure has decreased significantly in both absolute and relative terms. Thus, these items in the profit or loss account improve the profit before tax for 2018 compared to 2017. You can also read: GST invoice typesTry invoicing software – 3O days(trial) create GST invoice format word & ExcelExport invoice GSTAdvantages GSTGST audit checklist verification methodsCheck GST - HSN code GST exemption ListPartnership company registration