Analysis of Financial Statements

Meaning:

- It is a systematic process of dividing the financial information into simple and valuable elements, establishing relationships between inter-related elements and interpreting the same to understand the working and financial position of an enterprise from its financial statements.
- It includes analysis of Statement of Profit and Loss, Balance Sheet and Cash Flow Statement of an enterprise.
- It provides information to understand complex financial data and helps in taking appropriate financial decisions.

- **Understanding Analysis and Interpretation:** These two terms in understanding the meaning of financial statement analysis are complementary to each other and therefore, analysis cannot be complete without interpretation.
  - **Analysis:** It is concerned with simplification of financial data by proper classification of given in the financial statement.
  - **Interpretation:** It is concerned with explaining the meaning and significance of the financial data.

- **Definition of Financial Statement Analysis:**
  - **As per Myer:** Financial Statement Analysis is largely a study of relationships among the various financial factors in a business, as disclosed by a single set of statements, and a study of trends of these factors, as shown in a series of statements.

Objectives of Financial Analysis:

Following are the Purposes (Objectives) and Significance of Financial Analysis:

i. **To Assess the Earning Capacity or Profitability:** Earning Capacity and Profitability of the enterprise can be assessed from the financial statement analysis. It also facilitates forecasting of the same for the future years. External users are interested in earnings and hence, this is their prime objective of analysing financial statement.

ii. **To Assess the Managerial Efficiency:** This assessment is possible because financial statement analysis identifies the areas where managers have been efficient and where not. Favorable and unfavourable variations can be identified to pinpoint the managerial inefficiency.

iii. **To Assess the Short-term and Long-term Solvency of the Enterprise:** This assessment is possible by analysing the financial statements minutely. Creditors or suppliers are interested to know the ability of the entity to meet the short-term liabilities and Debenture holders and lenders are interested to know the long term and short term solvency of the enterprise to assess the ability of the company to repay the principal and interest thereon.

iv. **To facilitate Inter-firm Comparison:** Inter-firm Comparison helps an enterprise to assess its own performance as well as that of others if mergers and acquisitions are to be considered.

v. **To Forecast and Prepare Budgets:** Analysis of historical data in the financial statements helps in assessing developments in future. It facilitates forecasting and preparing budgets for the future years.

vi. **To Understand Complicated Matter:** Financial Statement analysis helps the users in understanding the complicated matter. This can be facilitated by using charts, graphs and diagrams which are easy to explain and understand.

Uses of Financial Analysis:

Financial Statements Analysis assists in making accurate decisions in various areas which are as follows:

i. **Security Analysis:** It is a process used by the investor to identify whether the firm is fulfilling his expectations with regard to dividends, capital appreciation, etc. Such analysis is done by a security analyst who is interested in cash generating ability, dividend pay-out policy and the behaviour of share prices.

ii. **Credit Analysis:** It is useful when a firm or bank offers credit to a new customer or a dealer. Management is always interested to know credit worthiness of client so as to take decisions regarding whether to allow or extend credit to them or not.

iii. **Debt Analysis:** It is useful when a firm wants to know its borrowing capacity.

iv. **Dividend Decision:** It is useful in determining the rate of dividend in order to decide how much of the earnings are to be distributed in the form of dividends and how much is to be retained. Dividend decisions have a direct impact on profitability of the firm and behavior of its share prices so are to be taken wisely using Financial Statement Analysis.

v. **General Business Analysis:** It is useful in identifying the key profit drivers and business risks in order to assess the profit potential of the firm and also assist in future growth scenarios.

Parties Interested in Financial Analysis:

Following are the parties interested in the analysis of Financial Statements:

i. **Management:** Financial analysis helps the management to ascertain overall as well as segment-wise efficiency of the business. It also helps in decision making, controlling and self-evaluation.

ii. **Employees and Trade Unions:** Financial Analysis is considered helpful for employees to get a clear idea of the emoluments, bonus, working conditions and security of their jobs by analysing profitability, sustainability and financial position of the enterprise from its financial statements. In order to take proper decisions and enter into beneficial wage agreements, trade unions also analyse financial statements to determine the degree of profitability of the enterprise based on which they can further negotiate.

iii. **Shareholder or Owners or Investors:** These are the investors who invest or contribute their savings in the form of capital. Therefore, they are interested in the returns of the business which can be ascertained from the profitability of the business. Also, growth potential helps in investment appreciation.

iv. **Potential Investors:** These are those who are interested to know the present profitability and the financial position as well as future prospects to make their mind on investment into business concern.

v. **Suppliers or Creditors:** This set of interested users are concerned whether the enterprise can make timely payments of the amounts due on account of credit transactions done with them and also whether to extend further credit to such enterprise. Such decision is based on the short term solvency of the enterprise which can be determined by analyzing the financial statements of the enterprise.

vi. **Bankers and Lenders:** These are those parties to an enterprise who provide funds in the form of loans which is repayable at the end of a pre-determined term. In order to identify the repaying capacity of the enterprise, such parties should have a clear idea of the long-term solvency of the enterprise. Such information is obtained by analyzing financial statements of respective enterprise.

vii. **Researchers:** Parties engaged into research activity and wish to perform the same over the business entities so as to analyse the profitability, growth and financial position of an enterprise. To gather information on such areas, they are interested in analyzing respective aspects of such areas which includes data related to business operations, finance, human resource, etc.

viii. **Tax Authorities:** Tax Authorities are interested in ensuring proper assessment of tax liabilities of the enterprise as per the tax laws in force from time to time.

ix. **Customers:** Customers have an interest in information about the continuance of an enterprise. This is particularly when they are either dependent on the enterprise or they have a long term involvement with the enterprise.

Classification of Financial Statement Analysis:

Financial Statement Analysis is of 4 types as follows:

i. **External Analysis:** This type of analysis is done by investors, credit agencies, researchers, etc. who do not have access to the confidential and complete records of an enterprise and therefore, have to depend on information published in various statements or reports which shall comprise of Statement of Profit and Loss, Balance Sheet, Auditor's Reports etc.

ii. **Internal Analysis:** This is a detailed and accurate type of analysis done by the management of the enterprise to determine the financial position and operational efficiency of the organization. Since, management has access of complete information; they perform an extensive type of analysis which is more detailed and accurate.

iii. **Horizontal Analysis:** It is also known as Dynamic Analysis. It is done to review and analyze financial statement for a number of years and hence, is also known as time series analysis. It facilitates comparison of financial data for several years against a chosen base year.

iv. **Vertical Analysis:** It is also known as Static Analysis. It is done to review and analyze the financial statements of one year only. It is useful in comparing the performance of several companies of the same type or divisions or departments in one enterprise.

Differences between Horizontal Analysis and Vertical Analysis:

Following are the points of differences between Horizontal Analysis and Vertical Analysis:

Basis	**Horizontal Analysis**	**Vertical Analysis**
1.Period	It requires comparative financial statements of two or more accounting periods.	It requires financial statement of one period.
2.Components or items	It deals with same item of different period.	It deals with different items of same period.
3.Information	Information is provided in absolute and percentage terms.	It provides information in percentage terms.
4.Usefulness	It is useful for Time Series Analysis.	It is generally used for Cross Sectional Analysis.

Understanding Inter-firm and Intra-firm Analysis:

i. **Inter-firm Analysis:** It facilitates a comparison of two or more firms based on the various financial factors or variables that will help decide the competitiveness of the respective firms. A comparison of a single set of statements of two or more firms is termed as Cross-sectional Analysis.
ii. **Intra-firm Analysis:** It facilitates a comparison of the various financial variables of an enterprise over a period of time and therefore, it is also known as Time Series Analysis or Trend Analysis. It helps analyzing performance of an enterprise over a period of time.

Tools or Techniques of Financial Statement Analysis

Following are the Tools or Techniques used to Analyze Financial Statements:

- **Comparative Statements:**
  - It means a comparative study of individual components or elements or items of Balance Sheet and Statement of Profit or Loss for two or more years.
  - At first, the value of each component or element or item of two or more financial years is placed alongside each other.
  - After this, differences between the two amounts are determined.
  - Lastly percentage change in the amount from the base year is ascertained.
  - Such comparative statements can be Intra-Firm or Inter-Firm Comparisons.

- **Common Size Financial Statements:**
  - It is a vertical analysis of Financial Statements in which amounts of individual items of Balance Sheet or Statement of Profit or Loss are written. These amounts are further converted into percentages to a common base.
  - These percentages can be compared with the corresponding percentages in other periods and meaningful conclusions can be drawn.
  - Such statements may be prepared for intra-firm and inter-firm comparison.
  - Such statements may be prepared for Balance Sheet as well as Income Statement.
- **Ratio Analysis:**
  - It is a study of relationship among various financial factors in a business.
  - It is a technique of analyzing the financial statements with the help of accounting ratio.
  - It is a process of determining and interpreting relationships between items of financial statements to provide a meaningful understanding of the financial performance and position of an enterprise.

- **Cash Flow Statement:**
  - It is a statement that shows the inflows and the outflows of Cash and Cash Equivalents during the period.
  - Inflows are those transactions that increase the Cash and Cash Equivalents and outflows are those transactions that decrease the Cash and Cash Equivalents.
  - Such statement is prepared in accordance with the Accounting Standard-3(Revised) on Cash Flow Statement. As per this accounting standard, cash flows are showed under the following 3 heads:
    a. Cash Flow from Operating Activities;
    b. Cash Flow from Investing Activities; and

c. Cash Flow from Financing Activities.

- **Trend Analysis: -** Here trend percentages are calculated for a number of years taking one year as a base year. This helps is assessing the trend of increase or decrease in various items.

- **Fund Flow Statement: -** It indicates the reasons of changing in working capital during a particular time period. It shows sources (inflow) and Applications (Outflow) of funds.
- **Break - even Analysis: -** It is a point where total of sales is exactly equal to the total of cost to the total of cost of sales i.e. the firm has neither any profit nor any loss. It is also known as no profit no loss point.

Limitations of Financial Statement Analysis

Limitations of financial statement are given below.

1. ***Ignores Changes in the Price level***
The financial analysis fails to capture the change in price level. The figures of different years are taken on nominal values and not in real terms (i.e. not taking price change into considerations).
2. ***Misleading and Wrong Information***
The financial analysis fails to reveal the change in the accounting procedures and practices. Consequently they may provide wrong and misleading information.
3. ***Interim and Final Picture***
The financial analysis presents only the interim report and thereby provides incomplete information. They fail to provide the final and holistic picture.
4. ***Ignores Qualitative and Non-monetary Aspects***
The financial analysis reveals only the monetary aspects. In other words, these analyses consider only that information that can be expressed only in monetary terms. These analyses fail to disclose managerial efficiency, growth prospects, and other non-operational efficiency of a business.

Introduction to Comparative Statements

- **Meaning:** Comparative Statements or Comparative Financial Statements:
  i. It means a comparative study of components or elements or items of Balance Sheet and Statement of Profit or Loss for two or more years.
  ii. At first, the value of each component or element or item of two or more financial years is placed alongside each other.
  iii. After this, differences between the two amounts are determined.
  iv. Lastly percentage change in the amount from the base year is ascertained.
  v. Such comparative statements can be Intra-Firm or Inter-Firm Comparisons.
- **Objectives:** Following are the Purposes or Objectives of Comparative Financial Statements:
  i. **Data Presentation becomes Simple and Comparable:** It is a statement with data for two or more years in a tabular form. Such tabular representation makes the data simple, understandable and comparable for drawing appropriate conclusions from the complex information.
  ii. **Indicates Trend:** It gives information about the changes affecting financial position and performance of an enterprise. It helps in forecasting by the way of indicating the trend.
  iii. **Indicates Strengths and Weaknesses:** It indicates the strengths and weaknesses of the

enterprise with respect to liquidity, profitability and solvency.

iv. **Comparison with other Firms and Industry Performance:** It helps in comparison of an enterprise's performance with that of other enterprises or with that of the industry.
v. **Forecasting and Planning:** Analysing changes and trend in the financial data of previous years helps the management in forecasting and planning.

- **Importance:** Comparative Financial Statements is a tool of financial analysis that shows change in each item from the base year in absolute amount and in percentage, taking the amounts for the preceding or previous accounting period as the base. Therefore, preparation of such statement is important because for the following different reasons:
  i. **Shareholders:** It provides meaningful information to the shareholders. Such statements are important to the shareholders being the owners of the company in making the timely decisions whether to hold the shares or sell them.
  ii. **Decisions and Plans:** Such statements are important to the management of the company to take proper decisions and to formulate plans and policies accordingly.
  iii. **Lenders:** These are the funds providers in the form of loan. In order to evaluate as to whether the loan is safe, whether any further loan is to be made and at what rate, such statements are important information providers to the lenders.
  iv. **Investment Decision:** Such statements are important to the potential investors to decide whether to invest in the company's share. From such statements they can obtain the useful information to take appropriate investment decisions.

- **Limitations of Comparative Statements:** These are same as limitations of financial statements which are as follows:
  i. **Historical Records:** Financial Statements provide information which is historical in nature and therefore, it is not useful for the potential investors or lenders as it does not provide any information of the future business or its future financial position.
  ii. **Affected by Estimates and Personal Judgement:** Financial Statements are the outcome of accounting concepts and conventions combined with estimated and are therefore, not free from bias.
  iii. **Different Accounting Practices:** Financial Statements can be drawn up on the basis of different accounting practices. Profitability determined by each of these practise will be different and hence, there is no standard practice which can be followed by all.
  iv. **Qualitative Elements are ignored:** Financial Statements are based completely on monetary items and therefore, many non-monetary important factors which affect the profitability of the business are ignored.
  v. **Price Level Changes are ignored:** Financial Statements follow the historical cost concept for showing assets at their historical cost. Because of such practices, current market value is not taken into consideration.
  vi. **Cannot Meet the Purpose of all Parties:** Financial Statements for a period are used by a number of interested users for various purposes and interests. It is not possible to meet the purpose of all interested parties.
  vii. **Aggregate Information:** Financial Statements show aggregate information and not detailed information and hence, it is not that useful for the users in decision making.

- **Tools or Techniques for Comparison of Financial Statements:** In order to compare the financial statements of any entity, following tools or techniques are to be used:

i. Comparative Statement of Profit and Loss (Income Statement),
ii. Comparative Balance Sheet,
iii. Common-size Statement of Profit and Loss (Income Statement), and
iv. Common-size Balance Sheet.

Introduction to Comparative Balance Sheet

- **Meaning**:
  i. It is a statement which is used for comparing the assets, liabilities and capital and ascertaining increase or decrease in those items.
  ii. It is horizontal analysis of Balance Sheet in which each item of assets, equity and liabilities is analysed horizontally for two or more accounting periods.

- **Advantages:**
  i. **Realistic Approach:** This statement not only shows the balances of accounts at different dates but also the extent of their increase and decrease between these different dates.
  ii. **Tracks Changes:** It gives more importance to the changes that are tracked between different dates rather than the figures derived on a particular date.
  iii. **Shows Trends:** It helps in identifying an increasing or decreasing trend over a period of time along with the nature, size and direction of change in various items.
  iv. **Assists in Planning:** It shows an increasing or decreasing trend in the assets, liabilities and capital of the entity over a period of time which helps in designing effective plans for the entity as a whole.
  v. **Links Income statement and Balance Sheet:** It shows the impact of various business operations on the assets, liabilities and capital of an entity over a period of time.

- **Preparation:** A Comparative Balance Sheet has six columns as follows:
  i. **First Column:** In this column, the components or elements or items of Balance Sheet are written.
  ii. **Second Column:** In this column, the Note No. given against the line item in Balance Sheet is written.

iii. **Third Column:** In this column, amounts of previous year are written.
iv. **Fourth Column:** In this column, amounts of current year are written.
v. **Fifth Column:** In this column, differences i.e., increase or decrease in amounts between the current and previous year are shown.

vi. **Sixth Column:** In this column, the difference of amount in column 5 (increase or decrease) is expressed as a percentage, taking column 3 (previous year's amount) as the base.

$$\text{Percentage Change} = \frac{\text{Absolute Change}}{\text{Previous year's Figure}} \times 100$$

COMPARATIVE BALANCE SHEET AS AT….

Particulars	Note No.	Previous Year ₹	Current Year ₹	Absolute Change ₹	Percentage Change %
(1)	(2)	(A) (3)	(B) (4)	(C=B-A) (5)	(D=C/A*100) (6)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
a) Share Capital:		…	…	…	…
i. Equity Share Capital		…	…	…	…
ii. Preference Share Capital		…	…	…	…
		…	…	…	…
b) Reserves and Surplus					
2. Non-Current Liabilities					
a) Long-term Borrowings					
b) Long-term Provisions		…	…	…	…
3. Current Liabilities		…	…	…	…
a) Short-term Borrowings		…	…	…	…
b) Trade Payables		…	…	…	…
c) Other Current Liabilities					
d) Short-term Provisions					
Total		…	…	…	…
II. ASSETS					
1. Non-Current Assets		…	…	…	…
a) Fixed Assets:		…	…	…	…
i. Tangible Assets		…	…	…	…
ii. Intangible Assets					
b) Non-current Investments					
c) Long-term Loans and		…	…	…	…
Advances		…	…	…	…
2. Current Assets		…	…	…	…
a) Current Investments		…	…	…	…
b) Inventories					
c) Trade Receivables					
d) Cash and Cash Equivalents					
e) Short-term Loans and Advances					
f) Other Current Assets					
Total		…	…	…	…

Introduction to Comparative Statement of Profit and Loss

- **Meaning**:
  i. It is a horizontal analysis of Income Statement which shows the operating results for more than one accounting period so that changes in absolute amounts and percentages from one period to another are known.
  ii. It will consist of all the items that are present in the normal Income statement like revenue from operations, cost of materials consumed, employee benefit expenses, etc. The methodology or formulae used to compute all these amounts also remains the same.

- **Objectives:** Following are the objectives of preparing Comparative Statement of Profit and Loss:
  i. To analyse every item of income and expense of two or more years.
  ii. To analyse the increase or decrease in every item of income and expense in absolute and percentage terms in order to identify the trend.
  iii. To determine the reasons for such change and improve the trends accordingly to enhance its performance.

- **Preparation of Comparative Statement of Profit and Loss:**
  i. First Column: In this column, items of revenues and expenses are written.
  ii. Second Column: In this column, Note No. is given against the item in the Statement of Profit or Loss is written.
  iii. Third Column: In this column, the amounts of previous year are written.
  iv. Fourth Column: In this column, the amounts of current year are written.
  v. Fifth Column: In this column, differences (increase or decrease) in amounts between the current and previous period are recorded.
  vi. Sixth Column: In this column, the above difference in column 5 (increase or decrease) is expressed as a percentage of column 3 (previous year's amount).

$$\text{Percentage Change} = \frac{\text{Absolute Change}}{\text{Previous year's Figure}} \times 100$$

COMPARATIVE STATEMENT OF PROFIT AND LOSS for the years ended

Introduction to Common-Size Statement of Profit and Loss

Particulars	Note No.	Previous Year `	Current Year `	Absolute Change `	Percentage Change %
(1)	(2)	(A) (3)	(B) (4)	(C=B-A) (5)	(D=C/A*100) (6)
I. Revenue from Operations II. Other Income		...	...	...	...
III. **Total Revenue (I+II)**		...	...	...	...
IV. **Expenses** Cost of Materials Consumed Purchases of Stock-in-Trade Changes in Inventories (Finished goods, Work-in-Progress and Stock- in-Trade) Employee Expenses Finance Costs Depreciation Expenses Amortization Expenses Other Expenses		... ...	... ...	... ...	... ...
Total Expenses		...	...	...	...
V. Profit before Tax (III-IV) **VI. Less: Tax**		... ...	... ...	... ...	... ...
VII.Profit or Loss for the period (V-VI)		...	...	...	...

- **Meaning of Common Size Financial Statements:**
  i. It is a vertical analysis of Financial Statements in which amounts of individual items of Balance Sheet or Statement of Profit or Loss are written. These amounts are further converted into percentages to a common base.

ii. These percentages can be compared with the corresponding percentages in other period sand meaningful conclusions can be drawn.
iii. Such statements may be prepared for intra-firm and inter-firm comparison.
iv. Such statements may be prepared for Balance Sheet as well as Income Statement.

Meaning, Objectives, Preparation and Format of Common-Size Statement of Profit and Loss:

- **Meaning of Common Size Statement of Profit and Loss:** A Common-size Statement of Profit and Loss may be prepared for different periods of the firm or for the same period of two firms. It shows the relative efficiency in operating the business.

- **Objectives:** Following are the Objectives of Common-size Statement of Profit and Loss:
  i. To analyse change in individual items of Income Statement.
  ii. To study the trend in different items of Incomes and Expenses.
  iii. To assess the efficiency.

- **Preparation:** Preparation of Common-size Statement of Profit and Loss: Such statement is prepared with the following six columns:
  i. First Column: In this column, the items of Statement of Profit and Loss are written.
  ii. Second Column: In this column, Note no. given against the item in the Statement of Profit and Loss is written.
  iii. Third Column: In this column, amounts of previous year are written if the statement is prepared for different periods of the same firm. If the statement is prepared for two firms, amounts relating to the first firm are written.
  iv. Fourth Column: In this column, amounts of current year are written if the statement is prepared for different periods of the same firm. If the statement is prepared for two firms, amounts relating to the other firm are written.
  v. Fifth Column: In this column, percentage of different items of Statement of Profit and Loss of the previous year to Revenue from Operations i.e., Net Sales, is written
  vi. Sixth Column: In this column, percentage relation of different items of Statement of Profit and Loss of the Current Year to Revenue from Operations, i.e. Net Sales is written.

COMMON-SIZE STATEMENT OF PROFIT AND LOSS for the years ended…

Particulars (1)	Note No. (2)	Absolute Amounts		Percentage of Revenue from Operations (Net Sales)	
		Previous Year ` (3)	Current Year ` (4)	Previous Year % (5)	Current Year % (6)
I. Revenue from Operations (Net Sales) II. Other Income		… …	… …	100 …	100 …
III. **Total Revenue (I+II)**		…	…	…	…
IV. **Expenses** Cost of Materials Consumed Purchases of Stock-in-Trade Changes in Inventories (Finished goods, Work-in-Progress and Stock-in-Trade) Employee Expenses Finance Costs Depreciation Expenses Amortization Expenses Other Expenses		… … … … … …	… … … … … …	… … … … … …	… … … … … …
Total Expenses		…	…	…	…
V. **Profit before Tax (III-IV)** VI. *Less*: Tax		… …	… …	… …	… …
VII. **Profit or Loss for the period (V-VI)**		…	…	…	…

Introduction to Common-Size Balance Sheet

- **Meaning:**
  i. It shows the percentage relation of each asset/liability to total assets/total liabilities including capital i.e., equity and liabilities.
  ii. In this statement, total assets or total equity and liabilities are taken as 100 and all the figures are expressed as percentage of the total.
  iii. If such statement is prepared for different periods, it helps in highlighting the trends in different items.
  iv. If it is prepared for different firms in an industry, it facilitates to assess the relative financial soundness and helps in understanding their financial strategy.

- **Objectives:** Following are the Objectives of Common-size Balance Sheet:
  i. To analyse the changes in individual items of Balance Sheet.
  ii. To see the trend of different items of assets, equity and liabilities.
  iii. To assess the financial soundness and understand financial strategy.

- **Preparation:** Following 6 columns are required in preparation of Common-size Balance Sheet:
  i. **First Column:** In this column, items of Balance Sheet are written.
  ii. **Second Column:** In this column, Note No. given against the line item is written.
  iii. **Third Column:** In this column, amounts of different items (assets/liabilities) of previous year are written.
  iv. **Fourth Column:** In this column, amounts of different items (assets/liabilities) of current year are written.
  v. **Fifth Column:** In this column, percentage relation of different items of previous year's Balance Sheet to total Equity and Liabilities/Total Assets (taken as 100) are written.
  vi. **Sixth Column:** In this column, percentage relation of different items of current year's Balance Sheet to total Equity and Liabilities/ Total Assets (taken as 100) are written.

COMMON-SIZE BALANCE SHEET as at ….

Particulars (1)	Note No. (2)	Absolute Amounts		Percentage of Revenue from Operations (Net Sales)	
		Previous Year ` (3)	Current Year ` (4)	Previous Year % (5)	Current Year % (6)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
a) Share Capital		…	…	…	…
i. Equity Share Capital					
ii. Preference Share Capital		…	…	…	…
b) Reserves and Surplus		…	…	…	…
2. Non-Current Liabilities		…	…	…	…
a) Long-term Borrowings					
b) Long-term Provisions		…	…	…	…
3. Current Liabilities		…	…	…	…
a) Short-term Borrowings					
b) Trade Payables		…	…	…	…
c) Other Current Liabilities					
d) Short-term Provisions		…	…	…	…
Total		…	…	100	100
III. ASSETS					
1. Non-Current Assets					
a) Fixed Assets:		…	…	…	…
i. Tangible Assets					
ii. Intangible Assets		…	…	…	…
b) Non-current Investments		…	…	…	…
c) Long-term Loans and Advances		…	…	…	…
2. Current Assets					
a) Current Investments		…	…	…	…
b) Inventories		…	…	…	…
c) Trade Receivables					
d) Cash and Cash Equivalents		…	…	…	…
e) Short-term Loans and Advances		…	…	…	…
f) Other Current Assets		…	…	…	…
Total		…	…	100	100

Trend analysis

Trend analysis is an important tool of horizontal financial analysis. This is helpful in making a comparative study of the financial statements for several years. Under this method trend percentages are calculated for each item of the financial statements taking the figure of base year as 100. The starting year is taken as the base year. The trend percentages show the relationship of each item with its preceding year's percentages. These percentages can also be presented in the form of Index Numbers showing relative change in the financial date of certain period. This will exhibit the direction to which the concern is proceeding. The trend ratio may be compared with the industry, in order to know the strong or weak points of a concern. These are calculated only for major items instead of calculating for all items in the financial statements.

The Trend Analysis Formula can be calculated by using the following steps:

Step 1: **Firstly, decide the base year and then note down the value of the subject line item in the base year.**
Step 2: **Next, note down the value of the line item in the current year.**

Step 3: **Now, the formula for trend analysis in terms of change in amount can be derived by subtracting the base year amount (step 1) from the current year amount (step 2) as shown below.**
Change in Amount = Current Year Amount – Base Year Amount

Step 4: **On the other hand, the formula for trend analysis in terms of percentage change can be derived by dividing the change in amount (step 3) by the base year amount (step 1) as shown below.**
Percentage Change = [(Current Year Amount – Base Year Amount) / Base Year Amount]