A STUDY ON FINANCIAL STATEMENT ANALYSIS IN PERCULSE RUBBER MANUFACTURING INDUSTRY – SALEM

Dr.R.Priya, M.B.A., M.Phil., SET., Ph.D.,[1]
*Assistant professor, Department of Management Studies
Thanthai Hans Roever College (Autonomous), Perambalur

C. Ayyappan[2]
**M.Phil, Research Scholar, Department of Management Studies,
Thanthai Hans Roever College (Autonomous), Perambalur

ABSTRACT

Finance is considered as life blood of business enterprise. Finance is one of the basic foundations of all kinds of economic activities. The success and survival of any organization depends upon how efficiently it is able to raise funds as and when needed and their proper utilization. The object of the present study is to analysis the financial statement analysis of Perculse Rubber Manufacturing Industry – Salem. The financial analyses help to understand how management is efficient in procuring and utilizing the funds. An attempt is made in the present study to analyze whether an entity is stable, solvent, liquid, or profitable enough to be invested in. Perculse Rubber is leading company in Tyre Manufacturing sector. The finding of the study helps the prospective investors in taking investment decision.

INTRODUCTION

FINANCIAL STATEMENTS ANALYSIS

Financial statements are formal record of the financial activities of a business, person or other entity and provide an overview of a business or person’s financial condition in both short and long term. They give an accurate picture of a company’s condition and operating results in a condensed form. Financial statements are used as a management tool primarily by company executive and investor’s in assessing the overall position and operating results of the company.Analysis and Interpretation of financial statements help in determining the liquidity position, long term solvency, financial viability and profitability of a firm. Ratio analysis shows whether the company is improving or deteriorating in past years. Moreover, comparison of different aspects of all the firms can be done effectively with this. It helps the clients to decide in which firm the risk is less or in which one they should invest so that maximum benefit can be earned.

Industries are capital intensive; hence a lot of money is invested in it. So before investing in companies one has to carefully study its financial condition and worthiness. An attempt has been carried out in this project to analyze and interpret the financial statements of a company.Financial statements are records that provide an indication of the organization’s financial status. It quantitatively describes the financial health of the company. It helps in the evaluation of company’s prospects and risks for the purpose of making business decisions. The objective of financial statements is to provide information about the financial position, Statement and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements should be understandable, relevant, reliable and comparable.

They give an accurate picture of a company's condition and operating results in a condensed form. Reported assets, liabilities and equity are directly related to an organization's financial position whereas reported income and expenses are directly related to an organization's financial Statement. Analysis and interpretation of financial statements helps in determining the liquidity position, long term solvency, financial viability, profitability and soundness of a firm. There are four basic types of financial statements: balance sheet, income statements, cash flow statements, and statements of retained earnings.

The analysis of financial statement is a process of evaluating the relationship between component parts of financial statement to obtain a better understanding of firm financial position. Analysis is a process of critically examining the accounting information given in financial statements. For the purpose of analysis, individual items are studied; their interrelationship with other related figures is established.

Thus analysis of financial statement refer to treatment of information contain in financial statement in a way so as to afford a full diagnosis of the profitably and financial position of the firm concern.

FINANCIAL STATEMENTS

Financial statements (or financial reports) are formal records of the financial activities of a business, person, or other entity. Financial statements provide an overview of a business or person's financial condition in both short and long term. All the relevant financial information of a business enterprise, presented in a structured manner and in a form easy to understand is called the financial statements.

The analysis of financial statement is a process of evaluating the relationship between component parts of financial statement to obtain a better understanding of firm financial position.

A complete set of financial statement comprises:

- ❖ A statement of financial position as at the end of the period:
- ❖ A statement of comprehensive income for the period;
- ❖ A statement of changes in equity for the period:
- ❖ A statement of cash flow for the period.
- ❖ Notes of Account comprising a summary of significant accounting policies and other explanatory information.

THERE ARE FOUR BASIC FINANCIAL STATEMENTS:

1. **Balance sheet:**

   It is also referred to as statement of financial position or condition, reports on a company's assets, liabilities, and ownership equity as of a given point in time. The Balance Sheet shows the health of a business from day one to the date on the balance sheet.

2. **Income statement**

   It is also referred to as Profit and Loss statement (or "P&L"), reports on a company's income, expenses, and profits over a period of time. Profit & Loss account provide information on the operation of the enterprise. These include sale and the various expenses incurred during the processing state.

   The income statement shows a presentation of the sales, the main expenses and the resulting net income over the period. Net income is based on accounting principles which gives guidance/rules on when to recognize revenues and expenses, whereas cash from operating activities, obviously is cash based.

3. **Statement of Retained Earnings:**

   It explains the changes in a company's retained earnings over the reporting period. The statement of retained earnings shows the breakdown of retained earnings. Net income for the year is added to the beginning of year balance, and dividends are subtracted. This results in the end of year balance for retained earnings.

4. **Cash Flow Statement**

It reports on a company's cash flow activities; particularly it’s operating, investing and financing activities. The statement of cash flows the ins and outs of cash during the reporting period. The statement of cash flows takes aspects of the income statement and balance sheet and kind of crams them together to show cash sources and uses for the period.

FINANCIAL STATEMENT ANALYSIS:

Financial analysis is the process of examining a company’s Statement in the context of its industry and economic environment in order to arrive at a decision or environment. For this purpose, financial reports are one of the most important sources of information available to a financial analyst. Furthermore, the analyst also uses information contained in the notes to financial statements and supplementary information (such as management discussion). It is important that an analyst have a strong understanding of each of these sources of information.

Financial Statement Analysis is a method of reviewing and analyzing a company’s accounting reports (financial statements) in order to gauge its past, present or projected future Statement. This process of reviewing the financial statements allows for better economic decision making.

Globally, publicly listed companies are required by law to file their financial statements with the relevant authorities. For example, publicly listed firms in America are required to submit their financial statements to the Securities and Exchange Commission (SEC). Firms are also obligated to provide their financial statements in the annual report that they share with their stakeholders. As financial statements are prepared in order to meet requirements, the second step in the process is to analyze them effectively so that future profitability and cash flows can be forecasted.

Therefore, the main purpose of financial statement analysis is to utilize information about the past Statement of the company in order to predict how it will fare in the future. Another important purpose of the analysis of financial statements is to identify potential problem areas and troubleshoot those.

FINANCIAL STATEMENT USERS

There are different users of financial statement analysis. These can be classified into internal and external users. Internal users refer to the management of the company who analyzes financial statements in order to make decisions related to the operations of the company. On the other hand, external users do not necessarily belong to the company but still hold some sort of financial interest. These include owners, investors, creditors, government, employees, customers, and the general public. These users are elaborated on below:

1. Management

The managers of the company use their financial statement analysis to make intelligent decisions about their Statement. For instance, they may gauge cost per distribution channel, or how much cash they have left, from their accounting reports and make decisions from these analysis results.

2. Owners

Small business owners need financial information from their operations to determine whether the business is profitable. It helps in making decisions like whether to continue operating the business, whether to improve business strategies or whether to give up on the business altogether.

3. Investors

People who have purchased stock or shares in a company need financial information to analyze the way the company is performing. They use financial statement analysis to determine what to do with their investments in the company. So depending on how the company is doing, they will hold onto their stock, sell it or buy more.

4. Creditors

Creditors are interested in knowing if a company will be able to honor its payments as they become due. They use cash flow analysis of the company's accounting records to measure the company's liquidity, or its ability to make short-term payments.

5. Government

Governing and regulating bodies of the state look at financial statement analysis to determine how the economy is performing in general so they can plan their financial and industrial policies. Tax authorities also analyze a company's statements to calculate the tax burden that the company has to pay.

6. Employees

Employees need to know if their employment is secure and if there is a possibility of a pay raise. They want to be abreast of their company's profitability and stability. Employees may also be interested in knowing the company's financial position to see whether there may be plans for expansion and hence, career prospects for them

7. Customers

Customers need to know about the ability of the company to service its clients into the future. The need to know about the company's stability of operations is heightened if the customer (i.e. a distributor or procurer of specialized products) is dependent wholly on the company for its supplies.

8. General Public

Anyone in the general public, like students, analysts and researchers, may be interested in using a company's financial statement analysis. They may wish to evaluate the effects of the firm on the environment, or the economy or even the local community. For instance, if the company is running corporate social responsibility programs for improving the community, the public may want to be aware of the future operations of the company.

RATIO ANALYSIS:

MEANING:

Absolute figures expressed in financial statements by themselves are meaningfulness. These figures often do not convey much meaning unless expressed in relation to other figures. Thus, it can be say that the relationship between two figures, expressed in arithmetical terms is called a ratio.

"According to R.N. Anthon "A ratio is simply one number expressed in terms another. It is found by dividing one number into the other."

TYPES OF RATIOS

1. Proportion or Pure Ratio or Simple ratio.
2. Rate or so many Times.
3. Percentage
4. Fraction.

NEED FOR THE STUDY

The need for the study is as follows:

1. The study aim at assessing profitability and solvency position of the company.
2. The liquidity and activity positions of the firm are analyzed using liquidity and turnover ratios involving current liabilities.
3. The solvency position of the company is also analyzed using ratios

OBJECTIVES OF THE STUDY

1. PRIMARY OBJECTIVES

To analyze the overall financial performance analysis of three perculse rubber manufacturing industry

2. SECONDARY OBJECTIVES

1. To ascertain the short term and long term solvency position of the perculse rubber industry
2. To ascertain the profitability ratio of perculse rubber industry limited during the past five financial years.
3. To know the overall financial position of perculse rubber industry during the past fives financial years
4. TO Draw the significant relationship between increase or decrease of income and expenditure with respect to different activities
5. To highlight the service coming in the area of finance with the help of the trend Analysis comparative balance sheet Analysis commensurate balance sheet analysis and the view to increasing efficient of the perculse rubber industry

SCOPE OF STUDY

- ❖ The activities as the sources are planned in on systematic manner.
- ❖ It provides validity, objectives & reliability in business management.
- ❖ It creates harmony in the relationship between the management & employee.
- ❖ The management aims to control the cost of the production at the same time increase the efficiency of Employee.

LIMITATIONS OF THE STUDY

- ❖ Time has been a limit factor and it has been difficult the various aspects of finance with the prescribed time.
- ❖ Financial statements are only in terms of reports. They are not final because the exact financial position can be known only when the business is closed.
- ❖ Financial statement are prepare on the basis of certain accounting concepts and conventions any changes in the method or procedure of accounting limits the utility the utility of financial statements.

REVIEW OF LITERATURE

Abbas Kebritchi ed all (2013) The effect of pre-devulcanization and temperature in waste tire pyrolysis are investigated on pyrolysis time, yield and properties of residual Heavy Fraction Pyrolytic Oil (HFPO). A comparative pyrolysis of usual Ground Tire Rubber (GTR) and a commercial devulcanized ground tire rubber, (known as Reclaim Rubber-RR) is performed in a static-bed batch reactor at 400–600 °C and the oil is distilled to light and heavy fractions. Chemical composition studies show higher amounts of aromatics in HFPO than light fraction.

N. Antoniou Ed all (2014) Taking under consideration the environmental boundaries but also the minimization of operating cost, End of Life Tyres (ELTs) depolymerization technology, via pyrolysis, can be characterized viable, under the condition of the effective valorization of every produced stream. This study aims to investigate which factors determine the path to activated carbon production from tyre-derived char, assuring that the received product will be of accepted quality, thus setting it as a commercially competitive product. To obtain current information on char activation, a comprehensive literature review was undertaken.

Kashem M. Muttaqi (2014) Recent improvements in computer processing power have enabled the development of intelligent electronic devices (IEDs) to be capable of interpreting a substantial quantity of data at high speeds. The distribution industry is one of the largest users of real-time data during the operation of their energy distribution network and as such, has an inherent need for data processing technology. The development of intelligent devices and communication protocols has given rise to the concept of distribution system automation (DSA). In this paper the major features of DSA development are discussed.

Jennifer L. Bayuk (2015) This paper provides an overview of the field of security metrics and discusses results of a survey of security experts on the topic. It describes a new framework for developing security metrics that focuses on effectiveness measures while maintaining measures of correctness. It introduces a view of security as a theoretical concept which encapsulates multiple aspects of a system. Viewing security as a theoretical attribute construct promotes the recognition that multiple characteristics and features of a system are required to make it secure.

Ananda Samudhram ed al (2016) Voluntarily disclosed employee costs in annual reports of listed firms are value relevant, according to US based studies. However, investors appear to fail to take full advantage of the signaling opportunities presented by these disclosures. This study suggests that labor productivity, audit quality, analyst coverage and high technology categorization moderate the value relevance of voluntarily disclosed employee costs in Malaysia, contributing a novel set of moderating variables to the human capital accounting and value relevance literature, and extending the extant literature to an emerging economy.

Pervez Hameed Shaikh ed al (2017) Buildings all around the world consume a significant amount of energy, which is more or less one-third of the total primary energy resources. This has raised concerns over energy supplies, rapid energy resource depletion, rising building service demands, improved comfort life styles along with the increased time spent in buildings; consequently, this has shown a rising energy demand in the near future. However, contemporary buildings' energy efficiency has been fast tracked solution to cope/limit the rising energy demand of this sector.

RESEARCH METHODOLOGY

RESEARCH DESIGN:

The research approach used for the study is descriptive. The form of the study is on the financial statement analysis in general and specific to the cash position.

DATA COLLECTION

PRIMARY DATA:

The primary data is collected from the personnel interview.

SECONDARY DATA:

The study has been made using secondary data, which are obtained from annual reports and statements of accounts.

ANALYTICAL TOOLS FOR THE STUDY:

The researcher for the purpose of analysis and interpretation of the following tools have been need

- **RATIO ANALYSIS**

DATA ANALYSIS AND INTERPRETATION

CURRENT RATIO:

An indication of a company's ability to meet short-term debt obligations; the higher the ratio, the more liquid the company is. Current ratio is equal to current assets divided by current liabilities. If the current assets of a company are more than twice the current liabilities, then that company is generally considered to have good short-term financial strength. If current liabilities exceed current assets, then the company may have problems meeting its short-term obligations.

CURRENT RATIO = CURRENT ASSETS / CURRENT LIABILITY

TABLE 4.1

TABLE SHOWING CURRENT RATIO

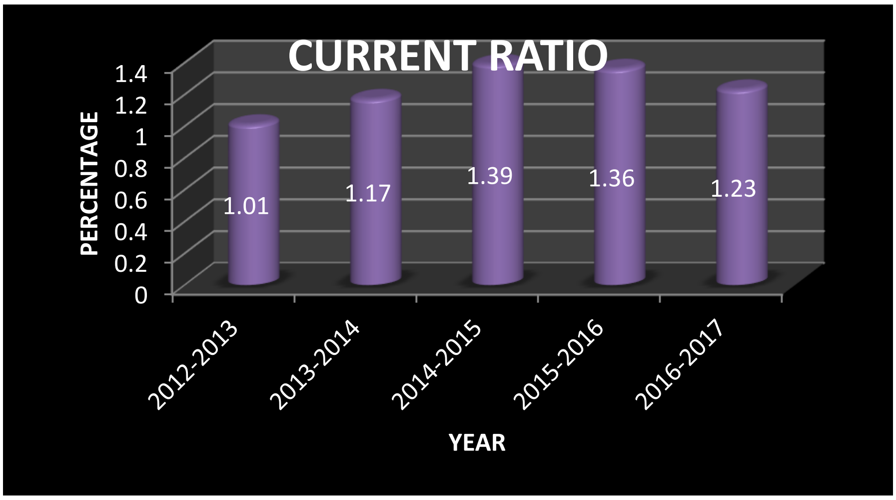
YEAR	CURRENT ASSETS (RS. IN CRORES)	CURRENT LIABILITIES (RS. IN CRORES)	CURRENT RATIO
2012-2013	21632.56	21396.16	1.01
2013-2014	29549.79	25227.88	1.17
2014-2015	53421.59	38228.64	1.39
2015-2016	58615.76	42895.38	1.36
2016-2017	54130.18	43746.43	1.23

INTERPRETATION:

An ideal solvency ratio is 2. The ratio of 2 is considered as a safe margin of solvency due to the fact that if current assets are reduced to half (i.e.) 1 instead of 2, then also the creditors will be able to get their payments in full.

But here the current ratio is less than 2 and more than 1 which shows that the industry has current assets just equal to the current liability which is not satisfactory as the safety margin is very less or zero. Therefore the industry should keep more current assets so that it can maintain a satisfactory safety margin.

CHART 4.1
CHART SHOWING CURRENT RATIO



FINDING:-

- In all five year the current ratio is higher with compare to the standard ratio but if we will compare the component with Inventory turnover ratio than we can come to know that money is blocked in stock and finished goods which is not converted into sale. So we are losing the opportunity cost.
- If we will take the reference of quick ratio than we can come to know that the much more money is blocked in Inventory rather than the cash, bank or marketable security.
- Debtors turnover ratio increasing it has given negative impact on stoke turnover ratio.
- The debtors turnover ratio is increasing it means the company has adopted financial stringency policy.
- The fixed turnover ratio and total turnover ratio both are decreasing which indicate that the assets are not used optimally to increase the sell.

SUGGESTIONS

- Although the short term liquidity position is quite satisfactory as per revealed by liquid ratio but the current ratio is below the ideal ratio of 2:1.So the industry should make efforts to increase its current assets to maintain a safety margin and to maintain a better liquidity position.

- ❖ The profitability of the industry for the period under study is not satisfactory. Profits are increasing but not with same pace as of the expenditure due to higher reliance on debt capital in the form of borrowings and loans for financing capital structure.
- ❖ So in order to improve profitability, the industry should reduce its dependence on external equities for meeting capital requirements. Consequently, the interest expenses will decline and profits will increase which is good for the industry. Similarly non productive expenses should be curtailed to improve profitability.
- ❖ Higher trend of credit deposit ratio reveals that the industry has performed satisfactorily as regard to granting loans and advances to generate income. It suggests that the credit performance of industry is good and it is performing its business well by fulfilling the major objective of granting credit and accepting deposit.

CONCLUSION

On the basis of various techniques applied for the financial analysis of industry we can arrive at a conclusion that the financial position and overall performance of the industry is satisfactory. Though the income of the industry has increased over the period but not in the same pace as of expenses. But the industry has succeeded in maintaining a reasonable profitability position.

The industry has succeeded in increasing its share capital also which has increased around 50% in the last 5 years. Individuals are the major shareholders. The major achievement of the industry has been a tremendous increase in its deposits, which has always been its main objective. Fixed and current deposits have also shown an increasing trend.

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