

**'THE STUDY OF FINANCIAL STATEMENTS WITH THE HELP OF  
RATIO ANALYSIS'  
AT  
CONCEPT ENVIROTECH SYSTEMS PVT LTD. BHOSARI, PUNE**

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**ABSTRACT**

This research reports covers all the respects relating to the key Fund flow of the company and interpreted according to standards. The research was done at CONCEPT ENVIROTECH SYSTEMS PVT LTD, PUNE.

The area given to me was to do analysis statement respect to Fund Flow Statement for the company using various financial statements. The main intention was to group or the various figures and information appearing on the financial statements to draw the fruitful conclusions there from. I found that by establishing strategic relationship between the components of the balance sheet and profit and loss account and operative data, it unveils the meaning and various items embodied in the financial statements the financial blue print of components.

Financial statements are valuable as they depict how the financial data of an enterprise fit in fabric of accounting system. Profit and loss account and balance sheet are financial statements.

The Profit and loss account is dynamic statements of record of income and expenses. On the other hand balance sheet is static statements showing financial position on certain date. It is an instantaneous photograph of the assets and liabilities and also the net worth of the company at the particular time.

The analysis of financial statements is the process of evaluating relationship between component parts of financial statements to obtain a better understanding of the firm position and performance. The first task of the financial analysis is Select the information relevant to the decision under consideration from the total information contained in the financial statement. The second step involved in financial to arrange the information in a way to

highlight significant relationship. Final step is interpretation & drawing of inference & conclusion in brief financial analysis in the process of selection relation & evaluation financial statement use for decision making by various parties interested them.

The primary uses of financial statements are evaluating past performance and predicting and future performance and both of these are facilitated by comparisons. Therefore, the focus of financial analysis is always on the crucial information contained in the financial statements. This depends on the objective and purpose of such analysis.

The management of the business unit, in contrast looks to the financial statements from various angles. These statements are required not only for the management's own evaluation and decision making, but also for internal control. And overall performance of the firm thus, the scope, extend and means of any financial analysis varies as per the specific needs of the analyst. Financial statements analysis is a part of the large information processing system, which forms the very basis of any decision making.

There are many advantage of financial analysis, which is following way,

- 1) Knowing exacts position: Everybody who is interested in knowing the exact financial position of the concern is benefited by this 'analysis' An interested party gets the information about exact facts and figures of the concern by analyzing the financial statements by various methods theoretical statistical etc. for example, interested parties like debtors, creditors, outsiders, shareholders etc.
- 2) Decision-making: Every interested party is in a position to assess the exact financial condition of the concern when it analysis financial statements of that concern, by reliable method. Thus, such an analysis ultimately helps that party in taking various types of decision such as investment sale, purchase etc.
- 3) Forecasting: After analyzing the financial statement, one is in a position to forecast whether it would be profitable or not to invest in or to deal with the concern.

### **Keywords**

Budget, Profit, Analysis, Inclusion, Diversion, Ratio, Efficiency, Assets, Liabilities

### **RATIONALE OF STUDY**

Although analyzing financial statements can be quite complex, a general idea of a company's financial position can be determined through the use of ratio analysis. Financial performance ratios can be calculated from the balance sheet and income statement. Ratio analysis enables

the analyst to compare items on a single financial statement or to examine the relationships between items on two financial statements. In judging how well a company is doing, analysts typically compare a company's ratios to industry statistics as well as to its own past performance.

### **INTRODUCTION OF CONCEPT ENVIROTECH SYSTEMS PVT LTD, PUNE**

Concept Envirotech Systems discovered the golden opportunity with self-innovativethought in 2008 of starting career as a manufacturing company, and Government Contractor for supply of Pipes as per tender requirement.

Concept Envirotech Systems is a Engineers & fabrication of specialty vehicles. It including auto bodybuilding on motor vehicles.

The company is a proprietorship firm. The company markets its products and provides services throughout the country through its nationwide selling network.

Concept EnvirotechSystems was established in year 2008 with a view to cater the growing need of garbage & sewage handling products. It is located in Pune, India in 10,000 sqft area with qualified and professional workforce with relevant equipments and machineries.

Its concept are committed towards continuous improvement in the products we manufacture and supply and also provide timely after sale services.

### **RATIO ANALYSIS**

Ratio analysis is a power full tool of financial analysis based on ratio. A ratio is defined "the indicate quotient up to mathematical expression." In financial analysis ratio is used as a benchmark evaluating the financial position and performance of a firm. The absolute accounting figure reported in the financial statements do not provide as mining full understanding of the financial position of a firm, but well expressed in terms of related figure, it yields significant inference. Ratio analyses reflect a quantitative relationship that helps to form qualitative judgment.

"Ratio analysis is a systematic use of ratio to interpret of the financial statement so that the strength and weakness of the firm, it is a historical performance and it current financial condition can be determine." --- Khan & Jain.

Ratio analysis involves three steps that are as follows:

1. Selection of data, which is relevant to the objective of analysis and calculation of the appropriate ratio.
2. Comparison of the past and present ratio of the same firm and/or with the industry standard.
3. Evaluation and drawing inference

#### **IMPORTANCE OF THE RATIO ANALYSIS:**

- It helps to understand the efficiency and performance of the concerned firm as a whole.
- It provides insight into the operating and financial strengths and weaknesses of the firm.
- It helps to identify potential troubles for the firm. This would impel the management to investigate those areas more thoroughly.
- It helps to pinpoint relationships that are not obvious from the financial statements.
- It helps to highlight the factors responsible for present state of financial affairs.
- It helps to examine the adequacy of funds, the solvency of firm and its ability to meet the financial obligations as and when they become due.
- It also helps the shareholders in evaluating the firm's activities and policies that affect the profitability, liquidity and ultimately the market price of the shares.

#### **Standard of Comparison: -**

- Trend analysis: - The ratios are compared to those calculated for the previous year in order to know whether the financial position is improving or deteriorating.
- Inter-firm comparison- the ratio of the firm may be compared with ratio of competitors or industry average, which are used as benchmark. Hence the position against the competitor can be known to analysis the strength and weakness.
- Index analysis: - The ratio of the current year is compared to those of base year. It can be even compared to standard or planned ratio.
- Common sized statement: - The items of the balance sheet are stated in the terms of "Percentage of total assets" and items in income statement are expressed in "percentage of sale".

### **Classification of Ratio:-**

Thus Ratios are classified as: -

- Turnover Ratio: - reflects the firm's efficiency in utilizing its assets.
- Coverage Ratio: - show the proposition of debt and equity in financing the firm's assets.
- Profitability ratio: - measures all over all performance and effectiveness of the firm.

### **Limitation of Ratio Analysis:-**

- Window dressing- in ratio analysis the financial position of the company can be presented by canceling the real position.
- Limitation use of single ratio- ratio can be useful only when they are computed in a sufficient target number.
- Lack of adequate standards it is very difficult to find out adequate and absolute standards, so a quality range is used.
- Lack of quality analysis of the problem - Ratio analysis only gives good basis for a quantitative analysis, but it suffers from quality aspects. Back ground is over looked- when an inter-firm comparison is made on the base of ratio analysis and they differ substantially in size in, age and nature of products, ratio analysis can't give satisfactory result as these factors are not consider here acts only a guide rather than a solution.
- Limited use- Ratio analysis is not a substitute for sound judgment, rather is help full tool to aid in applying the judgment. On the basis of financial statement, which determinants of ratio belong, however, the above basis of classification have been found to be crude and unstable, because analysis of the balance sheet and income statement cannot be done in isolation. They have to be studied together in order to determine the profitability and solvency of the business.

## **OBJECTIVE OF RESEARCH**

### **Primary Objective**

- The analytical study of financial statement with the help of ratio analysis.

### **Secondary Objectives**

To provide information about financial position of Concept Envirotech System.

- To give summarized view of the financial condition of a company.
- To use for decision-making by various parties.
- To focus on performance report of Concept Envirotech System with the help of the Ratio analysis.

### **SCOPE OF THE PROJECT**

- It can be used to compare the risk and return relationship of company of different Sizes.
- It is defined as the systematic use of ratio to interpret the financial statement so that the strength and weaknesses of a company as well as its historical performance and current financial condition can be determined.
- It can be make better investment and credit decision.
- It can be help of shareholder to evaluate the company profitability.
- It can be help to highlighted factor which is responsible to financial affairs.

### **RESEARCH METHODOLOGY**

#### **SOURCES OF DATA**

##### **A) Primary Data:**

Data that is collected by the researcher at first hand for the specific purpose is called a primary data. Observation is very important way of data collection.

This data is generated specifically for the purpose of working out the project. This data means the first hand information, which is collected through various sources e.g. Interviews, observation, here researcher use unstructured interview for the primary data collection tool as well as observation also use.

Balance sheet has been used on a primary data to complete the research.

##### **B) Secondary Data:-**

It may be defined as data that has been collected earlier for some purpose other than the purpose of present study. This source of data provides a wealth of information to the researcher. It act's as the reference for the present study.

This type of data can be collected from different web sites, printed material available in the company, annual report of the company, etc.

## **LIMITATION**

- Time limit is very big limitation during the research period
- Company cannot provide data easily, because they have also some restriction about confidential information.
- This research only limited for the Concept Envirotech Systems, it is not so useful for other companies of this sector.

## **FINDINGS AND OBSERVATIONS**

During the study on Concept company financial statements and performance over the year, researcher finds and observed some important and significant changes in the market as well as in Company. Following the Finding researcher was observed during this Project / Study.

- Net profit ratio indicates the ability of the management to convert sales into profit. Net profit ratio is more in 2012-13 as compared to previous years.
- Higher gross margins for a manufacturer reflect greater efficiency in turning raw materials into income, so here higher gross margin.
- Current assets of company are more than current liability in each year, so it IS considered satisfactory.
- Decrease in absolute liquid assets leads to decrease in the ratio in 2011-12 & 2012-13.

## **CONCLUSION**

1. Increasing Gross Profit Ratio is indicating good management.
2. Financial position of Concept Envirotech Systems of this year in 2012-13 was good as compare to previous two years in 2010-11 and 2011-12. because of increase in sales.
3. Operating cycle of the company is good.
4. From the overall study it is concluded that ratio analysis is very important for every business, with the help of ratio analysis we can understand the financial position of the company.

## **SUGGESTIONS**

1. Company should increase their current assets year by year as compare to current liabilities so it will automatically increase the current ratio of the company.

2. Company should increase their liquid assets like cash at bank and investments so that there will be increase in absolute liquidity ratio.
3. Company should increase their customers, and give them more facilities in the form of product & qualities.



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