



# Common Size Statements and Trend Analysis

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**Meaning**—Comparative statements that give only the vertical percentage or ratios for financial data without giving the rupee values are known as common size statements. A common size statements are known as ‘component percentage statement or vertical statements’. In this technique, the total of assets or liabilities and figure of net sales are taken equal to hundred and the percentages of individual items are calculated. This technique of analysis is useful when we wish to compare one company with another for presentation of the data in percentage form, eliminating problems relating to differences in organization size.<sup>1</sup>

### Objectives of Common-size Statement

**(1) To present the changes:** Through the common size statement changes in various items in relation to net sales, total assets or total liabilities can be presented. Which is not possible in comparative financial statements.

**(2) To establish a relationship:** There is relationship between various items of the income statement to sales and various items of balance sheet to total assets or total liabilities.

**(3) To provide common base for comparison:** Common size statements provides common base for comparison. Through the common size statement, financial statement of different firms can be converted into uniform common-size format.

**Common-size Balance Sheet**- The common size balance sheet is a statement which shows the relation of each asset item to total assets and each liability item to total liabilities. In this statement total of assets or liabilities is as-

sumed to be equal to 100 and all the figures are expressed as percentage of the total.

### Utility of Common-size Balance Sheet-

(1) To analyse changes in individual items of balance sheet. (2) To judge the relative financial soundness of the enterprise in comparison to its industry.

**Common-size Income Statement**-The common-size income statement show the percentage of each individual cost or expense item in relation to its net sales.

### Utility of Common-size Income Statement-

(1) To establish a relationship between individual items of income statement and sales. (2) To make comparison of the company with its industry. The common-size income statement and balance sheet of LPS Ltd. has been prepared in comparison with Fasteners Industry aggregates. This will be helpful in comparative evaluation of company’s performance with Fasteners Industry (LPS Ltd. comes under fasteners industry) over the study period. The common-size income statement and common-size balance sheet are as under: (i) shows that cost of good sold of the company is between 54.23 percent to 62.44 percent of net sales. While of the industry ranges between 55.80 percent to 57.38 percent of net sales. Cost of goods sold is less in LPS Ltd. than industry average. So the gross profits of LPS Ltd. are high than industry. The gross profits are in decreasing trend except in the year 2001-02. These are 44.04 percent in the financial year 2000-01 which decreased to 37.56 percent in the financial year 2004-05. But in the industry there is fluctuating

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trend of gross profits. (ii) The operating expenses of LPS Ltd. shows fluctuating trend between 28.68 to 36.66 percent. But in industry operating expenses are continuously decreasing. The operating expenses are less in LPS Ltd. than industry. Operating profit of LPS Ltd. are also in fluctuating trend, these ranges between 8.88 percent to 11.01 percent of net sales. But the industry is in losses, yet it tried to make profits. There is 1.11 percent profits in the financial year 2004-05 in industry. (iii) Non-operating income of LPS Ltd. is in decreasing trend except in the year 2001-02. These are 2.92 percent in the year 2001-02 which decreased to 0.83 percent in the year 2004-05. But in the industry non-operating income shows fluctuating trend. Total income of LPS Ltd. is continuously decreasing. But in industry there are losses which are in fluctuating trend.

(i) Net fixed assets of LPS Ltd. is in decreasing trend except in the year 2004-05. These are 25.03 percent of total assets in the financial year 2000-01 which decreased to 20.68 percent of total assets in the financial year 2004-05. But in industry there is fluctuating trend of fixed assets. (ii) Investments of the company are decreasing during study period except in the year 2001-02. These are 3.11 percent of total assets in the financial year 2000-01 which decreased to 2.52 percent in the financial year 2004-05 while industry shows fluctuating trend of investments. This shows that company is making less investments. (iii) Current assets of the company are almost increasing during the study period. It ranges between 71.14 percent to 77.57 percent of total assets. While in industry the current assets are in fluctuating trend between 61.09 percent to 67.45 percent. This shows that the company has made more investments in current assets than industry. Increase in current assets in the company is basically due to increase in inventories which raised from 39.24 percent to 49.66 percent of total assets during the study period. While in industry the inventories are between 19.80 percent to 26.68 percent of total assets. This shows that company is maintaining high level of inventories than in-

dustry. Debtors of the company are in fluctuating trend between 19.43 percent to 22.62 percent of total assets. In industry also there is fluctuating trend of debtors. Cash and bank balance of the company is in decreasing trend which ranges between 4.38 percent to 3.44 percent of total assets. But in industry it ranges between 3.39 percent to 2.03 percent of total assets. (iv) Share capital of the company has declined from 5.68 percent to 3.95 percent of total liabilities. In the industry it declined from 16.08 percent to 12.42 percent of total liabilities.

Reserves and surplus are in fluctuating trend during the study period. These are 25.66 percent of total liabilities in the year 2000-01, which decreased to 20.83 percent of total <sup>1</sup> N.L. Hingorani and A.R. Ramnathen, Management Accounting, New Delhi: Sultan Chand & Sons, 1973, p. 92. liabilities in the year 2004-05. But industry shows negative balances of reserves and surplus due to heavy losses. This indicates that company's position is better in reserves and surplus than the industry. (v) Total borrowings of the company shows decreasing trend except in the year 2001-02. It made borrowings of 55.53 percent in the year 2001-02 which decreased to 46.45 percent of total liabilities. This shows conservative attitude of management towards outside investment. Borrowings of the industry also shows decreasing trend. (vi) Current liabilities of the company are increasing. It increased to 26.91 percent of total liabilities in the financial year 2004-05 as against 16.50 percent in the financial year 2000-01. While the current liabilities of the industry are also increasing but at a faster rate. Increase in current liabilities of the company may be due to liberal credit policy. Deferred tax liabilities are decreasing. These are 2.30 percent of total liabilities in the financial year 2001-02 which decreased to 1.83 percent in the financial year 2004-05. But the deferred tax liabilities of the industry are increasing.

**Trend Analysis**-Trend analysis is very useful for making a analysis of financial statements. Trend analysis indicates the direction of move-

ment, which helps to form an opinion as to whether favourable or unfavourable tendencies have developed in the financial statements.

**Utility of Trend Analysis-**(1) It indicates the progress of business over a period by computing trend percentages. (2) It is useful to assess the strengths and weaknesses of a business in relation to its competitors through comparative figures of trend percentages.

In the present study trend percentages are shown in two forms:

- (i) Trend percentages of income statement.
- (ii) Trend percentages of balance sheet.

Trends of the company has been comparatively evaluated with the trends in the industry. These has been presented as follows –

(i) Table 6.3 shows that net sales index of the company is increasing except in financial year 2001-02. Net sales index of the industry is increasing in all study period. (ii) Cost of goods sold index of the company is also increasing except in financial year 2001-02. Increase in index is higher in the industry except in the year 2004-05. (iii) Gross profit index of the company is less than industry index in financial year 2001-02 and in financial year 2002-03. But in the financial year 2004-05 it is higher than industry index. (iv) Operating expenses index increase 108.88 percent in financial year 2001-02 and 144.15 percent in financial year 2004-05. Operating expenses of the company are increasing more than the growth rate of industry. (v) Operating profit index of the company is declining in the financial year 2001-02 and financial year 2002-03 after that the index has increased. But the industry's index turns to decline and turns to negative. (vi) Non-operating expenses index of the company is increasing except in the year 2002-03, it is declining. But industry's index is decreasing except in the year 2002-03. This shows that LPS Ltd. have more non-operating expenses than the industry. (vii) Net profit index of the company has decreased in the

financial year 2001-02 and in financial year 2002-03. After that it is increasing. But the industry net profit index turns to negative. It indicates that company is growing at a better rate than the fasteners industry.

(i) Table 6.4 shows that net fixed assets index of the company has decreased in the financial year 2001-02 and financial year 2002-03 after that it is increasing. It is 94.65 percent in the year 2001-02 which increased to 118.80 percent in the year 2004-05. Industry's net fixed assets index is higher than the company except in the year 2004-05. (ii) Investment index of the company and of the industry both are increasing but industry's index in the financial year 2004-05 is decreasing. (iii) Current assets index of the company is increasing but less in relation with index of current liabilities. Among the current assets of the company the index of the inventories shows highest increase. Loans and advances also shows better increase in index. Cash and bank index of the company also shows increasing trend except in the year 2002-03. But the industry cash and bank index is declining. This shows that company's liquidity position is better than the industry. (iv) Share capital index of the company is constant. It indicates that there is no change in share capital in all the study period. While the industry share capital index is increasing in the financial year 2001-02 and financial year 2002-03, after that it is declining. (v) Reserves and surplus index of the company is declining in the financial year 2001-02 and in the financial year 2002-03 due to less profits after that it is increasing while industry's index turns to negative due to high losses. (vi) Total borrowing index of the company is increasing, while of industry it is declining. It shows that company is making more borrowing than the industry. (vii) The total assets/liabilities index of the company is increasing while that of industry it is decreasing in financial year 2004-05. Above analysis shows that the company is performing better.