CHAPTER – II

Theoretical framework of financial analysis.

The current study is an attempt to analyse the financial position of 'Unique Industries' through ratio analysis technique for a period of five years ranging from 1997 to 2001 and try to make interpretation possible through the analysis made.

Before actually analysing an interpreting the financial statements of Unique Industries, let us first take a quick view of the subject matter of financial management, which will help us to have a correct grasp of Analysis and Interpretation of financial statements made.

III-1. Introduction

Finance, in the modern world is the life blood of business economy. Finance is the central point of all business activities. No matter the business is big or small, Govt or semi-government or non-government, the finance function of management is equally important to profit and non-profit organisation.

Something must direct the flow of economic activity and facilitate its smooth operation. Finance is the agent that produces this result.

The nature of any financing refers to its financial management as we take it today, is that managerial activity which is concerned with the planning and controlling of a firm's financial resources. The nature of financial management refers to its functions, scope and objectives. However, its scope and coverage have undergone a fundamental change.

In the early days of its evolution, it was regarded as a branch of economics, relating to raising the funds. But now, in current literature, pertaining to its growing discipline, its scope has changed tremendously, so as to include in addition to the raising funds efficient use of available resources as well. This concept of financial management today has universally accepted and recognized.

Financial Management is that specialised function of general management, which is related to the procurement of finance and its effective utilisation for the achievement of common goal of a given organisation. It includes each and every aspect of financial activity in business.

III-2 Definitions –

1) Financial management is the application of planning and control functions to the finance function. ***Howard.***

2) Financial management is the operational activity of a business that is responsible for obtaining of effective utilising the funds necessary for effective operations . ***Joseph & Massie***

What are the goals of Financial management ? The functions or role of financial management revolves around 3 main objectives viz. 1) Investment decision i.e. where to invest the funds and in what amount.

2) Financing decision i.e. where to raise the funds from and in what amount.

3) Dividend decision i.e. how much to pay in dividend and how much to retain.

In order to make these decisions rationally, the management must have a clear understanding of the objective which are sought to be achieved. It is however, generally agreed that the financial object of a financial management should be the maximization of owners economic welfare. Without proper administration of finances no business enterprise can utilise it's full potential for growth and success.

So the main function of financing management are –

1) Mobilization of funds for the firm - Here the Financial Management has to plan for and mobilize the required funds from various sources, when they are required at an acceptable cost.

2) Deployment of funds – There are always many competing needs for the allocation of funds. In consultation with the management of various departments such as Production, Marketing, Personnel etc. the

financing manager decides on the manner of deployment of funds or various assets.

(3) Control over the Funds -- After deciding on projects proposals, in which the funds are to be invested and after procuring them, the financial management has to monitor the use of funds in order to ensure that procurement and deployment proceeds according to plan.

III-3 Financial Statements –

Many people internal and external to business concern are interested in a concerns financial position and aspects for various reasons. e.g. the Management, Shareholders, Creditors, Tax authorities and other interested group.

They try to seek answers to certain questions like –

(1) What is the financial position of the firm at a given point of a time ?

(2) How did the firm perform financially over a given period of time.

To answer the above questions, the accountant as an assistant to Financial management has to prepare two major financial statements. The Balance Sheet and Income & Expenditure Statement.

The Balance sheet shows the financial position of the firm at a given point of time. It provides a snap shot of the firm's financial position and may be regarded as a static picture of the firm.

The Income Statement reflects performance of the firm over a period of time. Basically a financial statement is a compilation of data, which is logically and consistently organised according to accounting principles.

III- 4 Important Items of Financial Statements

Before going on to the Financial statements of Unique Industries, we will make all the important concepts concerning the financial statements clear

I) Trading account –

This account is mainly split into separate accounts like -

1) Purchases account which records both cash and credit purchases of goods (Debit side)

2) Purchase returns or Return outwards i.e. goods returned out of goods purchases which are deducted from purchases (Debit side)

3) Sales account to record cash as well as credit sales of goods (credit side)

4) Sales return or Return Inward account to record goods returned by customers out of goods sold to them are deducted from sales amount. (Credit side)

5) Goods remained unsold i.e. goods on hand at the end of the trading year a separate account is opened called ' Closing stock' (Credit side)

6) This closing stock on hand is at the beginning of the next year called ' Opening stock' (Debit side)

7) All expenses incurred on purchases till the goods are reached at the location of the trader and made ready for resale are debited to the Trading account as they increase the cost of goods purchased or produced e.g. Wages, Freight, Carriage, Custom Duty, Clearing charges etc. (Debit side)

8) The result of Trading Account may be the Gross Profit, which is the excess of selling price over the cost of goods sold or may be the Gross Loss. which is the excess of cost of goods sold to the selling price.

   The balance of any above result is transferred to the 'Profit and Loss Account.'

9) The trading account enables a trader to ascertain the percentage of gross profit/ loss on sales and to compare the same with that of previous year. It helps the trader to find out the cause of fluctuations, if any and to take necessary steps to improve the efficiency.

II) Profit & Loss Account –

1) This account is credited with Gross profit if shown by trading account and with all nominal accounts, having a credit balance in the Trial Balance i.e. items of gains and income.
2) It is debited with Gross loss and all nominal accounts (except those taken to Trading account) having debit balances in the Trial Balance i.e. items of expenses or losses.
3) Some of the items of gains and income forming a part of Profit & Loss account are - Interest received , commission received, rent received and discount received etc.
4) Items of expenses and losses in Profit & Loss account are – Salaries, interest paid, discount allowed, bad debts etc.
5) The Profit & Loss account should also disclose every material feature including credit or receipts and debits or expenses in respect of non-recurring transactions or transactions of an exceptional nature.
6) If the total of credit side exceeds the total of debit side, the difference is Net Profit and if debit side is more than credit side, the difference is Net Loss.
7) The balance of Net Profit is added to Capital Account in Balance Sheet' and the balance of Net Loss is deducted from capital in Balance Sheet.

   The Profit & Loss account should clearly disclose the result of the working of a concern during the period covered by the account
8) It is usually prepared on accrued basis i.e. all expenses incurred and due are debited to Profit & Loss A/c. whether paid or not and all incomes earned and due are credited to Profit and Loss Account, whether they are actually received or not.

III - <u>'Balance Sheet'</u>

1) At the end of every accounting period, every business organisation prepares a Balance Sheet to have a clear understanding of its financial position.

2) A 'Balance Sheet' is a statement of Assets and Liabilities of a business organisation at any particular date.

3) A 'Balance Sheet' is not an account, but is divided into two sides headed as ' Liabilities i.e. left hand side and 'Assets' i.e. the right hand side of Balance Sheet.

4) All real accounts and personal accounts having debit balances are shown on Assets side. Whereas the Personal Accounts having credit balances, including capital are shown on liabilities side.

5) Assets can be arranged in order of their liquidity i. e. in order in which they can be converted into cash which is the liquidity order base arrangement.

6) Liabilities can be arranged in the order in which they are payable i.e. the liquidity base arrangement.

7) Arrangement of fixed assets & liabilities on the assumption that they will be sold and paid only on liquidation which is the fixity basis of arranging the data. But there is no such law for the order of writing assets and liabilities in case of sole trader or partnership firms.

8) The Balance Sheet has to tally. Assets side should be equal to liabilities side. Utilization of funds (assets) should be equal to sources of funds (liabilities)

   However, it is a static document and it reflects the position of the concern at a moment of time. It may not project the real and exact position of the concern, as the real position of the concern may be changing on day to day basis.

III – 5. Analysis & Interpretation.

As stated above, different interest groups, may be interested in knowing different aspects regarding the finance of a business concern.

For instance, a lender may wish to know if his loan is secured, an internal manager may be concerned with all aspects of finance of a concern, a banker may wish to assess the working capital, needs of a business or soon.

All these individuals may wish to compare the original performance over a period of time or with other organisations at the same time. This is possible by Financial Statement Analysis and Interpretation.

Analysis and Interpretation of financial Statements is an attempt to determine the significance and meaning of the financial statement data, so that a forecast may be made of the prospects for future earning, ability to pay interest, debt maturity – both current as well as long term of a business concern.

Let us try to understand the two concepts differently –

1) Analysis –

Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of the trends of these factors as shown in a series of statements. It consists of application of analytical tools and techniques to the data in financial statements in order to derive from them measurements and relations that are significant and useful for decision making.

The process of analysis of financial statement involves the compilation and study of financial & operating data and then preparation and interpretation of measuring devices such as trends, ratios and percentage.

The main function of financial analysis is the pinpointing of the strength and weaknesses of a business undertaking by regrouping and analysis of figures contained in the financial statements, by making comparisons of various components and by examining their content.

Financial Analysis can be made on various basis like –

(i) 1) External Analysis - It is made by those who do not have access to the detailed records of a concern. They have to depend almost entirely on published financial statements.

2) Internal Analysis – The internal analysis is accomplished by those who have access to the books of accounts and all other information related to business, While conducting this analysis, the analyst is a part of enterprise he is analysing.

3) Horizontal Analysis - When financial statements for a number of years are reviewed and analysed the analysis is called ' horizontal analysis'.

4) Vertical Analysis - Vertical analysis also called as Static Analysis and is frequently used for referring to ratios developed for one data or for one accounting period . Vertical analysis is not very useful.

ii) Interpretation –

Interpretation is the mental process of understanding the terms of simpler elements resulting from analysis of the compounded Financial Statements and forming opinions or drawing inferences and conclusions about various aspects of business enterprise, such as Solvency, Profitability, efficiency etc.

As per Woods definition - " Interpretation is putting the meaning of a statement into simpler terms for the benefit of a person. "

Interpretation facilitates the understanding of the meaning and significance of the data simplified by analysis.

Interpretation and Analysis are closely connected because interpretation is impossible without analysis and shorn of interpretation, analysis is useless. So, interpretation required analysis.

Analysis & Interpretation of financial statements require a comprehensive and intelligent understanding of their nature and limitations as well as determination of the monetary valuation of the items. The analyst must grasp what represents sound and unsound relationships reflected by the financial statements. He should fully realize that administrative, financial and operating policies of management or the absence of such policies can be detected by studying the statements.

Of the various tools of analysis of financial statements, Ratio Analysis is the most commonly used tool.

III – 6 Ratio Analysis

A) Introduction - Financial analysis is the process of identifying financial strength and weaknesses of the firm by properly establishing relationships between the items of balance sheet and profit and loss account. Ratio analysis is a powerful tool of financial analysis, which gives a mathematical relationship between one variable and another. Considering that there are many variables in Balance Sheet and Profit & Loss account, it would be possible to relate virtually any two items in the form of ratios.

B) Meaning - People intending to have a view of a concern's financial position, prefer to work with data, which appear to be concrete in nature. This is primarily because analysis becomes easy when they are rationalized with numbers. So Quantitative relations of the kind represented by ratio analysis is a mean to understanding firm's financial position.

The relationship of one item to another expressed in a simple mathematical form is known as a ratio. In other words, it explains the relationship between two numbers. In the context of ratios derived from financial statements, various Balance Sheet and Profit & Loss items are expressed in terms of ratios.

The absolute accounting figure reported in the financial statements do not provide a meaningful understanding of the performance and the financial position of a concern. An accounting figure conveys effective meaning when it is related to some other relevant information. Thus the analysis of a ratio can disclose relationship as well as basis of comparison that reveal conditions and trend that cannot be detected by going through individual components of ratio.

e.g. When a firm's liquidity position is analysed two components are used as two components of ratio : Current Assets of a given business Rs.2,57,000 and current liabilities are Rs.1,00,000, the resulting ratio will be :

$$\frac{2,57,000}{1,00,000} = 2.57$$

2.57 is the current ratio.

C) Utility of ratio Analysis

There are many parties or groups that are interested in analysing a firm's financial position. e. g. owners, creditors, investors, Bank and others. The nature of analysis will however differ on the purpose of analyst.

1) For Trade Creditors - They are interested in the fact that the firm should be able to meet their claim over a short period of time. Their analysis will, therefore, confine to the evaluation of the firm's liquidity position (Liquidity ratio)

2) For Long Term Creditors - The Suppliers of long term debt are interested in the firm's long term solvency and survival. They analyse the firm's profitability over time, it's ability to generate cash to be able to pay interest and return their claims and the relationship between various sources of funds.

Long term creditors not only analyse the historical financial statements, but also require the firm to supply then with projected financial statements to make analysis at about the firms future solvency and profitability . e.g. Solvency and Leverage ratios.

3) For Investors - Investors are people, who have invested their money in the firm's capital and are eager to know the firm s earnings They concentrate on the analysis of the firm's present and future profitability . e.g. Profitability ratios.

4) For Management - Management of the firm is interested in every aspect of the financial analysis as it is their overall responsibility to see that resources of the firm are used most effectively and efficiently and that the firm's financial conditions is sound.

D) Standard of Comparison –

The ratio analysis involves comparison for a useful interpretation of financial statements. A single ratio in itself does not indicate favourable or unfavourable condition. It should be compared to some standard. Standards of comparison may consist of –

1) Ratios calculated from past financial statements of the same firm.

2) Ratios developed using the projected financial statements of the same firm.

3) Ratios of some selected firms, especially the most progressive and successful, at the same point of time.

4) Ratios of the industry to which the firm belongs.

Any standard can be used, as per the purpose of the analysis. Every standard has it's own advantages. However the easiest and simple way to evaluate the performance of a firm is to compare, it's present ratios with the past ratios. When the financial ratios over a period of time are compared, it gives an indication of the direction of change and reflects whether the firm's financial position and performance has improved, deteriorated or remained constant over time. But, this kind of comparison is valid only when the firm's accounting policies and procedures have not changed over time.

Our study is also based on the ratio analysis of Unique Industry's financial position over a period of five years ranging from 1997 to 2001.

E) Role of Ratio Analysis –

Being a useful tool of analysis to various people, it plays a very important role to various people as a measure of analysis.

1) It simplifies, summarizes and systematizes a long array of accounting figures.

2) It brings out the interrelationship which exist between various segments of business as expressed through accounting statements.

3) It is an instrument for diagnosis of the financial health of an enterprise.

4) It evaluates important aspects of the conduct of business like liquidity, solvency, profitability, capital gaining etc.

5) Such evaluations above, helps in drawing conclusions regarding financial requirements and the capabilities of business units, which conclusions cannot be easily derived from the usual tenor of financial statements.

6) The ratio analysis is an invaluable aid to management in discharge of its basic functions of forecasting, planning, co-ordination, communication and control.

7) It helps prediction and projecting future, it assists in communication, by conveying information, which is pertinent and purposeful, to those whom it is meant.

8) It promotes co-ordination, by study of the efficiency of business.

9) It helps control of business operations by undertaking or appraisal of both physical and monetary targets.

Thus a ratio analysis discharges various functions, which are useful to different persons in different capacities.

F) <u>Limitations of Ratio Analysis –</u>

Ratio Analysis has a number of pit falls in many respects as well. Let us glance over these limitations of ratio analysis.

1) Ratio is meaningless by itself and acquires significance only when it is studied along with other ratio.

2) Being a quantitative tool of analysis, it is quite possible that qualitative factors may override numerical aspects, with distorted conclusions.

3) The data used for ratio analysis are usually estimated figures in many aspects, which lend an air of precision to the arithmetical results obtained.

4) Ratio analysis is only a beginning and gives a fraction of information for decision making. The information obtained from ratio must always be used in conjunction with other information for a comprehensive analysis.

5) In a way, Ratios are an attempt to dwell in the past, as financial statements from which ratio are derived are historical statements. But in modern and dynamic business, it is more important to have an idea of probable happenings in future rather than of those in past. From this point of view, a financial ratio will have relevance only if it is able to give an inkling of the future.

6) Ratio further have various limitations like, determination of a proper standard for comparison, lack of homogeneity, danger of fallacious comparisons if accounting data is far away from its context, suspectabilities of the accounting data to manipulation etc.

So a ratio analysis should be used as a tool of analysis, by keeping a proper eye over it's limitations.

G) Classification –

Many types of financial ratios may be used, generally the purpose of analysis will suggest a application of one set of ratios in preference to another. There are sound reasons for selecting different kinds of accounting ratios for different types of situations. The kind of data available, also sometimes determine the nature of analysis.

Accounting ratios may be classified on various basis, like :-

1) Classification according to the Statements from which ratios are derived.

a) Balance Sheet ratios b) Revenue statement ratios

c) Inter Statement ratios.

2) Functional Classification of Ratios

a) Liquidity Ratio b) Leverage Ratio

c) Activity Ratio d) Profitability Ratio

3) Classification according to importance

a) Primary ratio b) Secondary Ratio

In our study of 'Unique Industries" , we have analysed the financial position of Unique Industries, through computation of ratio, based on functions i.e. Functional Classification of Ratios.

Functional Classification of Ratio of Unique Industries

Liquidity Ratios	Solvency Ratio	Profitability Ratio	Turnover or Activity Ratio
1) Current Ratio	1) Debt-Equity Ratio	1)Gross Profit Ratio	1)Stock or Inventory Ratio
2) Quick Ratio	2) Proprietor's fund Ratio	2)Net Profit Ratio	2) Debtors turnover Ratio
	3) Interest coverage Ratio	3)Return on Assets Ratio	3) Fixed Assets turnover Ratio

1) Liquidity ratios - These ratios are intended to derive a picture of the capacity of a firm to meet it's short term obligations out of it's short term resources.

2) Solvency ratios – They measure the contribution of financing by owners compared with financing provided by the outsiders.

3) Activity Ratios – Activity or turnover ratios, are intended to measure the effectiveness of the employment of resources by the firm.

4) Profitability ratios - They highlight the end-result of business activities, which helps in determining the overall efficiency of a business unit.

III – 7 Rearrangement of data –

The financial statements of Unique Industries as available are in the conventional form of ' Trading and Profit & Loss Account' and 'Balance

Sheet'. These statements are prepared in horizontal form of 'T' form based on the concepts of 'Debit ' and 'Credit'.

This arrangement of information in 'Trading and Profit & Loss Account' and 'Balance Sheet' can hardly be understood by non-accounting people. It is therefore considered necessary to rearrange the financial data in a form suitable for further proper analysis and interpretation. This rearrangement of financial data is a vertical form of 'Trading and Profit & Loss Account' and Balance sheet'.

Rearrangement of data in a vertical form of 'Trading and Profit & Loss Account' and 'Balance Sheet' is advantageous for various reasons stated as follows :

1) Vertical form of financial statements are single sided, having one column to write the figures. The technicalities of debit and credit concepts of accounts are conventionally eliminated. Even people without any accounting background can read and understand from the statements.

2) The figures are placed one after another. The horizontal width of paper sheet also remains convenient to include in thesis.

3) The information presented in vertical form facilitates easy interpretation of data. It is more analytical and gives the information of intermediate figures of various types like sales, cost of goods sold, working capital, Net profit etc.

4) It brings out the inter relationship, between 'Trading and Profit & Loss account' and 'Balance sheet'.

III – 8

In the following pages the financial information of 'Unique Industries' for a period of 5 years viz. 1997 to 2001 and is presented in vertical form of financial statements

Profit and Loss Account
for the year ended 31.3.97

		Rs.	Rs.
Revenue	Net Sales		2935715
Less :	Cost of goods sold		2328333
	1) Opening stock	160886	
	2) Purchases	2285127	
	3) Production cost		
	i) Wages	75645	
	ii) Transport	101055	
	iii) Factory expenses	4264	
	iv) Electricity and water charges	33995	
		2660972	
Less :	Closing stock	332639	
	Gross Profit		607382
Less :	Operating Expenses		514987
	I) Administrative expenses		
	1) Salary	24000	
	2) Printing & stationery	11119	
	3) Office expenses	7200	
	4) Misc. expenses	29236	
	5) Legal charges	4400	
	6) Insurance	18324	
	7) Licence	600	
	8) Labour and welfare	7965	
	9) Stamp expenses	14150	
	10) Elec. Inspection expenses	130	
	11) Bonus	6700	
	12) First Aid & medicines	856	
	13) Depreciation	94039	
	14) Post & telegrams	27784	
		246503	
	II) Financial Expenses		
	1) Interest	215134	
	2) Bank Commission	4244	
	3) Bank charges	3000	
		222378	
	III) Selling Expenses		
	1) Travelling	11240	
	2) Advertisement	2892	
	3) Car & Tempo expenses	12172	
	4) Diesel (Tempo) expenses	19802	
		46106	

2

		Rs.	Rs.
Add :	Operating income	--	--
	Net operating Profit	--	92395
	Less : Operating Expenses	--	--
	Add : Operating Income	--	--
	Net Profit	--	92395

Balance Sheet as on 31.3.97

		Rs.	Rs.
	Funds Employed		
	I. Proprietary fund		185420
	1) Owner Contribution	93025	
	2) Profit	92395	
		185420	
	II. Long Term Loans		1442188
	1) Kop Janata Sah.Bank C.C.	1019668	
	2) – " - H. P. Car loan	145632	
	3) Apple Industries Ltd.	276888	
		1442188	
	Total		1627608
	Application of funds		=======
	I. Fixed Assets		669698
	1) Land	4400	
	2) Building	151674	
	3) Machinery	42472	
	4) Maruti Car	140762	
	5) Tata Tempo	330390	
		669698	
	II. Investment		190747
	1) Kop. Sah. Bank Deposit	116000	
	2) - " -	50000	
	3) - " -	17722	
	4) - " -	7025	
		190747	
	III. Working Capital		767163
	1) Current Assets		
	a) Stock	332639	
	b) Debtors	1070783	
	c) Kop. Janata Sah.Bank S/A	125000	
	d) Cash on hand	14124	
		1542546	
Less :	2) Current Liabilities		
	a) Sundry creditors	5811883	
	b) Other creditors	192475	
	c) Outstanding expenses	1719	
		775382	
	Total		1627608
			=======

Profit and Loss Account

for the year ended 31.3.98

		Rs.	Rs.
Revenue	Net Sales		2963984
Less :	Cost of goods sold		2350440
	1) Opening stock	332639	
	2) Purchases	2084340	
	3) Production cost		
	i) Wages	93490	
	ii) Transport	66182	
	iii) Factory expenses	6567	
	iv) Electricity and water charges	40797	
		2624015	
Less :	Closing stock	273575	
	Gross Profit		613544
Less :	Operating Expenses		532537
	I) Administrative expenses		
	1) Salary	29100	
	2) Printing & stationery	12659	
	3) Office expenses	14037	
	4) Misc. expenses	31537	
	5) Legal charges	2800	
	6) Insurance	8998	
	7) Labour and welfare	7380	
	9) Stamp expenses	27185	
	10) Elec. Inspection expenses	80	
	11) Bonus	13530	
	12) First Aid & medicines	1107	
	13) Depreciation	48489	
	14) Post & telegrams	26289	
	15) Machine repairs	14260	
		238521	
	II) Financial Expenses		
	1) Interest	227718	
	2) Bank Commission	11688	
		239406	
	III) Selling Expenses		
	1) Travelling	16650	
	2) Advertisement	7115	
	3) Car & Tempo expenses	30845	
		54610	

2

		Rs.	Rs.
Add :	Operating income	--	
	Net operating Profit	--	81007
	Less : Non-Operating Expenses	--	--
	Add : Non-Operating Income	--	--
	1) Tempo Dum Profit	--	24000
	Net Profit	--	105007

Balance Sheet as on 31.3.98

		Rs.	Rs.
	Funds Employed		
	I. Proprietary fund		125116
	1) Owner Contribution	20109	
	2) Profit	105007	
		125116	
	II. Long Term Loans		2069412
	1) Kop Janata Sah.Bank C.C.	1834691	
	2) – " - H. P. Car loan	76499	
	3) Apple Industries Ltd.	158222	
		2069412	
	Total		2194528
	Application of funds		========
	I. Fixed Assets		663918
	1) Land	4400	
	2) Building	184665	
	3) Machinery	31853	
	4) Maruti Car	112610	
	5) Tata Tempo	330290	
		663918	
	II. Investment		313247
	1) Kop. Sah. Bank Deposit	216000	
	2) - " -	50000	
	3) - " -	47247	
		313247	
	III. Working Capital		
	1) Current Assets		1217363
	a) Stock in trade	273575	
	b) Sundry Debtors	871942	
	c) Kop. Janata Sah.Bank S/A	400500	
	d) Cash on hand	19170	
		1565187	
Less :	2) Current Liabilities		
	a) Sundry creditors	346774	
	b) Outstanding expenses	1050	
		347824	
			2194528
			========

Profit and Loss Account

for the year ended 31.3.99

		Rs.	Rs.
Revenue	Net Sales		3793890
Less :	Cost of goods sold		3008555
	1) Opening stock	273576	
	2) Purchases	2673685	
	3) Production cost		
	i) Wages	191600	
	ii) Transport	60326	
	iii) Factory expenses	6408	
	iv) Electricity and water charges	53910	
		3259505	
Less :	Closing stock	250950	
	Gross Profit		785335
	Operating Expenses		698997
	I) Administrative expenses		
Less :	1) Salary	29650	
	2) Printing & stationery	14572	
	3) Office expenses	4570	
	4) Misc. expenses	27113	
	5) Legal charges	6000	
	6) Insurance	24176	
	7) Licence	200	
	8) Labour and welfare	4957	
	9) Grampanchayat Tax	330	
	10) Elec. Inspection expenses	80	
	11) Bonus	34700	
	12) First Aid & medicines	2416	
	13) Depreciation	58956	
	14) Post & telegrams	34878	
	15) Machinery repairs	4998	
	16) Professional Tax	1500	
	17) Weight charges	600	
	18) Current repairs	6536	
		256232	
	II) Financial Expenses		
	1) Interest	383426	
	2) Bank Commission	8052	
		391478	
	III) Selling Expenses		
	1) Travelling	12835	
	2) Advertisement	1698	
	3) Car & Tempo expenses	36754	
		51287	

2

		Rs.	Rs.
Add :	Operating income	--	--
	Net operating Profit	--	86338
	Less : Non-Operating Expenses	--	--
	Add : 1.Tempo dum Profit	24000	--
		24000	
	Net Profit	--	110338

Profit and Loss Account

for the year ended 31.3.2000

		Rs.	Rs.
Revenue	Net Sales		3911057
Less :	Cost of goods sold		3101469
	1) Opening stock	250950	
	2) Purchases	2919191	
	3) Production cost		
	i) Wages	246500	
	ii) Transport	74119	
	iii) Factory expenses	9253	
	iv) Electricity and water charges	59064	
		3559077	
Less :	Closing stock	457609	
		3101469	
	Gross Profit		809588
Less :	Operating Expenses		733862
	I) Administrative expenses		
	1) Salary	10300	
	2) Printing & stationery	13777	
	3) Office expenses	3066	
	4) Misc. expenses	3415	
	5) Legal charges	3750	
	6) Insurance	28564	
	7) Advertisement	750	
	8) Labour and welfare	3006	
	9) Stamp expenses	10000	
	10) Machinery repairs	5895	
	11) Bonus	23000	
	12) First Aid & medicines	545	
	13) Regular expenses	5975	
	14) Post & telegrams	53849	
	15) Profession Tax	2000	
	16) Current repairs	2325	
	17) Weight charges	700	
	18) Subscription	300	
		171216	
	II) Financial Expenses		
	1) Interest	491989	
	2) Bank Commission	10531	
		502520	
	III) Selling Expenses		
	1) Travelling expenses	20090	
	3) Car & Kinetic Petrol exp.	40035	
		60125	

2

		Rs.	Rs.
Add :	Operating income	--	--
	Net operating Profit	--	75726
	Less : Non-Operating Expenses		2000
	1) Kargil Donation	2000	
	Add : Non-Operating Income		53206
	1) Bank Interest	29206	
	2) Tempo Dum Profit	24000	
	Net Profit		126932

Balance Sheet as on 31.3.2000

		Rs.	Rs.
	Funds Employed		
	I. Proprietary fund		225825
	1) Owner Contribution	98893	
	2) Profit	126932	
		225825	
	II. Long Term Loans		2948181
	1) Kop Janata Sah.Bank C.C.	2801752	
	2) Kotak Mahindra Premium Ltd, Pune.	146429	
		2948181	
	Total		3174006
			=======
	Application of funds		
	I. Fixed Assets		909959
	1) Land	4400	
	2) Building	175432	
	3) Machinery	23890	
	4) Santro Car	360263	
	5) Kinetic Honda	15584	
	6)Tata Tempo	330390	
		909959	
	II. Investment & Deposits		422952
	1) Kop. Sah. Bank Deposit	237806	
	2) - " -	80000	
	3) - " -	78000	
	4) - " -	49747	
	5) Bank of Maharashtra F.D.	5000	
	6) Telephone Deposit	2000	
	III. Working Capital		1841095
	1) Current Assets		
	a) Stock in trade	457609	
	b) S. Debtors	2113213	
	c) Kop. Janata Sah.Bank S/A	10377	
	d) Cash on hand	11375	
	e) T D S.	2180	
Less		2594754	
	2) Current Liabilities		
	a) Sundry creditors	746196	
	b) Sales Tax (Outstanding)	7463	
		753659	
			3174006
			=======

Profit and Loss Account

for the year ended 31.3.2001

		Rs.	Rs.
Revenue	Net Sales		2590725
Less :	Cost of goods sold		1978538
	1) Opening stock	457609	
	2) Purchases	1735653	
	3) Production cost	383236	
		2576498	
	Closing stock	597960	
	Gross Profit		612187
Less :	Operating Expenses		889114
	I) Administrative expenses		
	1) Printing & stationery	11548	
	2) Office expenses	1052	
	3) Postage	2183	
	4) Misc. expenses	593	
	5) Legal & Consultation fees	11100	
	6) Insurance	31748	
	7) Current repairs	8210	
	8) Labour and welfare	3232	
	9) Stamp expenses	2000	
	10) Registration Expenses	3065	
	11) Bonus	21500	
	12) First Aid & medicines	800	
	13) Subscription	300	
	14) Telephone	21438	
	15) Weight Inspection fee	865	
	16) Machinery repairs	6835	
	17) Accounting charges	4600	
		131069	
	II) Financial Expenses		
	1) Interest	579023	
	2) Bank Commission	6020	
		585043	
	III) Selling Expenses		
	1) Travelling	9016	
	2) Advertisement	6315	
	3) Tempo Diesel expenses	71384	
	4) Tempo Repairs	52042	
	5) Kinetic & Santro Petrol	34245	
		173002	

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		Rs.	Rs.
Add :	<u>Operating income</u>		
	1) Tempo Freight	<u>69600</u>	
	Net operating Loss		- 207327
	Less : Non-Operating Expenses		
	Add : Non-Operating Income		86845
	1) Bank Interest	80670	
	2) Dividend	<u>6175</u>	
	Net Loss *	--	- 120482

Balance Sheet as on 31.3.2001

		Rs.	Rs.
	Funds Employed		
	I. Proprietary fund		46544
	1) Owner Contribution	167026	
	2) Loss	- 120482	
		46544	
	II. Long Term Loans		3347545
	1) Kop Janata Sah.Bank C.C.	3101779	
	2) Kotak Mahindra Ltd.	52253	
	3) Tata Finance Ltd.	193513	
	Total		3394089
	Application of funds		=======
	I. Fixed Assets		1051597
	1) Land	4400	
	2) Building	175432	
	3) Machinery	23890	
	4) Santro Car	360263	
	5) Kinetic Honda	15584	
	6) Tata Tempo	465778	
	7) Furniture	6250	
		1051597	
	II. Investments & Deposits		565073
	1) Kop. Sah. Bank Deposit	483326	
	2) - " - Share	74747	
	3) Bank of Maharashtra FD	5000	
	4) Telephone Deposit	2000	
		565073	
	III. Working Capital		1777419
	1) Current Assets		
	a) Stock in trade	597960	
	b) Sundry Debtors (D)	1612076	
	c) Kop. Janata Sah.Bank S/A	10377	
	d) Cash on hand	34946	
	e) TDS	3880	
Less :		2259239	
	2) Current Liabilities		
	a) Sundry creditors	409051	
	b) Sales Tax	72769	
		481820	
	Total		3394089
			=======