

CHAPTER VI

COMPARATIVE STATEMENTS ANALYSIS

- 6.1** Introduction
- 6.2** Meaning of Comparative Statement
- 6.3** Importance of Comparative statements
- 6.4** Preparation of Comparative statements
- 6.5** Precau tions for comparative statements
- 6.6** Preparation of the camparative statements of the
Bank & their interpretation.

CHAPTER VI

COMPARATIVE STATEMENTS ANALYSIS

6.1 INTRODUCTION:

The comparative statements are important tools of horizontal financial analysis. Financial data becomes more meaningful when compared with similar data for a previous period or number of previous periods. Such analysis helps us in forming an opinion regarding the progress of the enterprise.

6.2 MEANING OF COMPARATIVE STATEMENT:

In the general usage, statements prepared in a form that reflect the financial position for two or more periods are known as comparative statements. In any comparative statement, Columns for more than one years position or working can be drawn and figures may be provided. The annual data can be compared with similar data for previous years. Similarly, mothly or quarterly data can be compared with similar data for the same months or quarters of the previous years. In comparative statements the figures can be shown at the following values:-

- 1) In absolute money value.
- 2) Increase or decrease in absolute values.
- 3) In the form of percentages.
- 4) In the form of common size statements.

6.3 IMPORTANCE OF COMPARATIVE STATEMENTS:

The comparative statements are very useful in measuring the effects of the conduct of a business enterprise over the period under consideration.

Regardless of its financial strength at a given point of time, the enterprise must operate successfully, if it hopes to continue as a going concern. The income statement measures the effects of operations. But the progress of these operations may be viewed over a number of periods by preparing the income statement in a comparative form, say for a period of 3 to 5 years. In the same way, the effects of operation or financial position and the progress and a business in terms of financial position can be presented by means of a comparative balance sheet. Thus, comparative statements present a review of the past activities and their comparative effect on the financial position of the concern. The American Institute of Certified Public Accountants has explained the utility of preparing the comparative financial statements as follows.

"The presentation of comparative financial statements in annual and other reports enhances the usefulness of such reports and brings out more clearly the nature and trend of current changes affecting the enterprise. Such presentation emphasises the fact that statements for a series of periods are far more significant than those of a single period and that the accounts of one period are but an instalment of what is essentially a continuous history. In any one year, it is ordinarily desired that the Balance sheet, the income statement and the surplus statement be given

for one or preceding years as well as for the current year." Recognising the importance of comparative financial data for two years, the Indian Companies Act, 1956 has made this fact compulsory that in the balance sheet of a Company the Figures for the previous year should also be given to facilitate the comparison. Though the balance sheet is a useful statement, the comparative balance sheet is even more useful for it contains not only the data of single balance sheet, but also for past years which may be used in studying the trends in the enterprise .

6.4 PREPARATION OF COMPARATIVE STATEMENTS:

The comparative statements for two or more years are prepared in the horizontal form. The number of columns provided for absolute figures depend upon the number of years of Comparison. After these columns of absolute figures, a column is provided to indicate increase or decrease. If the increase or decrease is decided to be expressed in percentage also, an additional column showing this percentage is provided.

6.5 PRECAUTIONS FOR COMPARATIVE STATEMENTS:

Before preparing comparative statements it is necessary to ensure that the following precautions are taken.

- 1) The financial statements should contain full disclosure of the information by way of foot-notes.
- 2) Proper accounting procedure is to be followed every year while preparing the accounts and the financial statements.

3) The items in the balance-sheet are to be properly classified and uniformity is to be maintained in such classification.

4) Concept of consistency and other relevant, concepts & conventions are to be followed.

5) Personal judgements are to be properly exercised.

6.6 PREPARATION OF THE COMPARATIVE STATEMENTS OF THE BANK AND THEIR INTERPRETATION.

Considering the limited time available for completing the dissertation work, last four years viz, 1989-90, 1990-91, 1992-93 and 1993-94 are selected for the analysis of comparative statements. Year 1991-92 is omitted since the financial statements for this year were prepared for nine months due to change in co-operative year.

Now, let us prepare the comparative statements and make the financial analysis and interpretation.

TABLE SHOWING THE COMPARATIVE INCOME STATEMENT FOR THE YEARS
ENDED 30TH JUNE,1990 AND 1991

			(Rs.in lakhs)	
	June 30		Absolute	Percentage
	1990	1991	increase(+) or Decrease(-) in 1991	Increase(+) or Decrease(-) in 1991
Interest on loans	185.59	231.06	+45.47	+24.50
Int.on Deposit	23.50	28.96	+ 5.46	+23.23
Int.on overdues	-	0.82	+ 0.82	+ 100
Discount	0.02	0.05	+ 0.03	+ 150
Total int.& discount				
received	209.11	260.89	+51.78	+24.76
other income	4.18	5.02	+ 0.84	+20.10
Total income	213.29	265.91	+52.62	+24.67
LESS:				
Interest paid	140.25	179.34	+39.09	+27.87
Salaries & allowances	40.87	50.50	+ 9.63	+23.56
Administrative Exp.:-				
Conveyance & D.A.	1.56	1.64	+ 0.08	+ 5.13
Insurance,Electricity, rent & taxes	3.72	4.68	+ 0.96	+25.81
legal exp.	0.07	0.11	+ 0.04	+57.14
Postage & Telephone	0.60	0.94	+ 0.34	+56.67
Audit fee	0.34	0.35	+ 0.01	+ 2.94
Depreciation & repairing	1.16	1.50	+ 0.34	+29.31
Printing,stationery & advertisement	2.22	2.63	+ 0.41	+18.47
other expenses	3.68	3.83	+ 0.15	+ 4.08
Total administrative exp	13.35	15.68	+ 2.33	+17.45
Total operating exp.	194.47	245.52	+51.05	+26.25
Operating profit	18.82	20.39	+ 1.57	+ 8.34
Add:Non operating incomes	0.90	0.93	+ 0.03	+ 3.33
Net profit	19.72	21.32	+ 1.60	+ 8.11
Less:Reserves & Provisio-ns	0.42	0.55	+ 0.13	+30.95
Net profit as per P&L A/c	19.30	20.77	+ 1.47	+ 7.62

SOURCE : Annual Reports of the Bank.

The percentage increase in all cases has been calculated taking previous year as the base.

The total income for the year 1991 has increased by Rs. 52.62 lakhs and by 24.67% over the total income for the year 1990. The increase in total income indicates the progress made by the bank. However all the expenses show a rising trend. The interest received during the year has increased by Rs. 51.78 lakhs i.e. by 24.76% whereas the interest paid has gone up by Rs. 39.09 lakhs i.e. by 27.87%. Similarly total expenses have increased by Rs. 51.05 lakhs i.e. by 26.25%. The Expenditure on salaries and allowances has increased slightly by Rs. 9.63 lakhs. As a result the net profits have not increased in the proportion in which the total income has increased during the year.

TABLE NO. 6.2

TABLE SHOWING THE COMPARATIVE INCOME STATEMENT FOR
THE YEARS ENDED 31ST MARCH 1993 AND 1994

(Rs. in Lakhs)

	March 31		Absolute	Percentage
	1993	1994	increase(+) or Decrease(-) in 1994	increase(+) or Decrease(-) in 1994
Interest on loans	353.57	359.05	+ 5.48	+ 1.55
Int. on Deposit	45.49	51.96	+ 6.47	+ 14.22
Int. on Overdues	0.93	1.00	+ 0.07	+ 7.53
Discount	0.08	0.01	- 0.07	- 87.50
Total int. & Discount received	400.07	412.02	+11.95	+ 2.99
Other income	9.45	11.26	+ 1.81	+ 19.15
Total income	409.52	423.28	+ 13.76	+ 3.36
LESS :				
Interest paid	251.98	259.12	+ 7.14	+ 2.83
Salaries & allowances	74.43	83.59	+ 9.16	+ 12.31
<u>Administrative Exp.</u>				
Conveyance & D.A.	2.95	3.72	+ 0.77	+ 26.10
Insurance, Electricity, rent & Taxes	5.91	6.32	+ 0.41	+ 6.94
Legal Exp.	0.15	0.28	+ 0.13	+ 86.67
Postage & Telephone	1.18	1.47	+ 0.29	+ 24.58
Audit fee	0.81	1.69	+ 0.88	+108.64
Depreciation and repairing	1.92	2.43	+ 0.51	+ 26.56
Printing, Stationary & advertisement	3.43	5.32	+ 1.89	+ 55.10
Other exp.	4.66	7.23	+ 2.57	+ 55.15
Total administrative Exp.	21.01	28.46	+ 7.45	+ 35.46
Total operating Exp.	347.42	371.17	+23.75	+ 6.84
Operating Profit	62.10	52.11	- 9.99	- 16.09
Add : Non operating incomes	1.06	1.41	+ 0.35	+ 33.02
Net Profit	63.16	53.52	- 9.64	- 15.26
Less: Reserves & Provisions	0.71	7.88	+ 7.17	+1009.86
Net Profit as per P & L a/c	62.45	45.64	-16.81	- 26.92

SOURCE : Annual Reports of the Bank.

The total income for the year 1994 has increased by Rs. 13.76 lakhs and by 3.36% over the total income of 1993. The expenditure on salaries and allowances have increased by Rs. 9.16 lakhs and by 12.31% over the previous year. The interest and discount received increased by Rs. 11.95 lakhs i.e. by 2.99% whereas the interest paid has gone up by ^{Rs.}7.14 lakhs i.e. by 2.83% during 1994. There is substantial increase in administrative expenses by Rs. 7.45 lakhs i.e. by 35.46%. Total expenditure has gone up by Rs. 23.75 lakhs. Since the amount transferred to reserve fund have increased by Rs. 7.17 lakhs, the net profits have reduced by Rs. 16.81 lakhs or by 26.92% in spite of increase in total income. This clearly indicates that the interest paid, other administrative expenses and reserves have increased to such an extent that the increase in total income is not sufficient even to offset the increase in expenses and maintain the percentage of net profit.

TABLE NO 6.3

TABLE SHOWING THE COMPARATIVE BALANCE

SHEET AS ON 30 TH JUNE, 1990 AND 1991

(Rs. in Lakhs)

	June 30		Absolute increase (+) or Decrease (-) in 1991	Percentage increase (+) or Decrease (-) in 1991
	1990	1991		
ASSETS :				
<u>CURRENT ASSETS :</u>				
Cash & Bank Balances	65.21	63.19	- 2.02	- 3.10
Short-term Loans	604.97	675.54	+ 70.57	+ 11.67
1/5 th of medium-term loans	155.48	208.41	+ 52.93	+ 34.04
1/15 th of long-term loans	3.21	4.25	+ 1.04	+ 32.40
Interest receivable	30.11	36.70	+ 6.59	+ 21.89
Stock	2.91	3.80	+ 0.89	+ 30.58
Other Debts	11.03	7.02	- 4.01	- 36.36
B/R being Bills for collection	0.13	0.02	- 0.11	- 84.62
Total current Assets	873.05	998.93	+125.88	+ 14.42
<u>FIXED ASSETS (Less Depreciation)</u>				
Building	7.30	7.42	+ 0.12	+ 1.64
Furniture	10.52	12.46	+ 1.94	+ 18.44
Library	0.01	0.01	-	-
Vehicles	0.03	0.03	-	-
Other fixed assets	3.40	4.45	+ 1.05	+ 30.88
Total Fixed Assets	21.26	24.37	+ 3.11	+ 14.63
<u>MISCELLANEOUS ASSETS</u>				
Investments	241.96	297.26	+ 55.30	+ 22.86
4/5 th of medium term loans	612.91	833.62	+211.71	+ 34.04
14/15 th of long term loans	44.91	59.55	+ 14.64	+ 32.60
Total Miscellaneous Assets	908.78	1190.43	+281.65	+ 30.99
TOTAL ASSETS	1803.09	2213.73	+410.64	+ 22.77

continued

	June 30		Absolute increase (+) or decrease (-) in 1991	Percentage increase (+) or decrease (-) in 1991
	1990	1991		
Liabilities & CAPITAL				
CURRENT LIABILITIES				
12.22 % of time deposit	60.43	78.46	+ 18.03	+ 29.84
Savings Deposit	199.43	227.58	+ 28.15	+ 14.12
Current Deposit	0.42	0.22	- 0.20	- 47.62
Hishkriya Deposit	2.21	2.25	+ 0.04	+ 1.81
Matured time Deposit	4.89	8.85	+ 3.96	+ 80.98
Loans & From D.C.C. Bank	306.80	424.70	+117.90	+ 38.43
Bills for collectio being B/R	0.13	0.02	- 0.11	- 84.62
Interest Payable :				
01/7th of Int. on Deposit	23.36	27.87	+ 4.51	+19.31
2) D.C.C. Bank Loans Int.	3.26	5.14	+ 1.88	+57.67
Other Creditors	11.39	10.47	- 0.92	- 8.08
TOTAL CURRENT LIABILITIES	612.32	785.56	+173.24	+28.29
TERM LIABILITIES				
Total long-term Deposit	868.82	1044.54	+175.72	+20.23
Interest payable on long term Deposits .	140.14	167.23	+ 27.09	+19.33
Total other reserves	10.49	13.36	+ 2.87	+27.36
Total Term Liabilities	1019.45	1225.13	+205.68	+20.18
Total outside liabilities	1631.77	2010.69	+378.92	+23.22
CAPITAL & RESERVES				
Share Capital	129.73	154.79	+ 25.06	+19.32
Reserve Fund	22.19	27.37	+ 5.18	+23.34
Dividend Equalisation reserve	0.10	0.11	+ 0.01	+10.00
Profit & Loss a/c	19.30	20.77	+ 1.47	+ 7.62
Net worth/Total share holders funds	171.32	203.04	+ 31.72	+18.52
Total Liabilities & Capital	1803.09	2213.73	+410.64	+22.77
Net Working Capital	260.73	213.37	- 47.36	- 18.16

SOURCE : Annual Reports of the Bank.

Generally medium-term loans are given for five years and repayable within 60 monthly equal instalments. Therefore $\frac{1}{5}$ th portion of medium-term loans which is recoverable within one year is taken in the current assets and remaining $\frac{4}{5}$ th portion of medium term loans is taken in the miscellaneous assets. Similarly $\frac{1}{15}$ th portion of long-term loans which is recoverable within one year is taken in the current assets and remaining $\frac{14}{15}$ th portion is taken in the miscellaneous assets. 12.22 % of total time deposit having less than one year time period and $\frac{1}{7}$ th of Interest on deposit payable within one year is taken in the current liability.

Interpretation : Table no 6.3 :

Analysis of Balance sheets for the year ending 1990 and 1991 reveal as under.

The fixed assets and long-term miscellaneous assets have increased by Rs. 284.76 Lakhs and the capital & long term liabilities have increased by Rs. 230.74 Lakhs only. This means fixed assets & long term miscellaneous assets have increased in excess by Rs. 54.02 lakhs than the long term liabilities & share capital. It means that the working capital is used to finance the fixed assets & long-term miscellaneous assets. The current liabilities for the year 1991 have increased by Rs. 173.24 lakhs, where as the current assets for the year 1991 have gone up by Rs. 125.88 lakhs. If we compare increase in terms of absolute figures, we can say that, this has affected to certain extent the short-term solvency of the Bank. Further the cash and bank balances have reduced by Rs. 2.02 Lakhs i.e. by 3.10 % where as short-term loans, medium & long-term loans have increased. The short term solvency depends to a great

extent on recovery of loans in time, otherwise it may result into overtrading. The proprietor's funds have increased by Rs.31.72 lakhs because of increase in General Reserve, dividend equalisation reserve, retained earnings and share capital. Excluding share capital the other reserves are through the net profit of the Bank.

So far as the current liabilities are concerned, the composition within has changed. The loans from D.C.C. Bank have highly increased by Rs.117.90 lakhs or by 38.43%. This indicates that there was shortage of working capital during the year 1991.

TABLE NO. 6.4
TABLE SHOWING THE COMPARATIVE BALANCE SHEETS
AS ON 31st MARCH, 1993 AND 1994.

(Rs. in lakhs)

	31 st March		Absolute increase (+) or decrease (-) in 1994	Percentage increase (+) or decrease (-) in 1994
<u>ASSETS :</u>	1993	1994		
<u>CURRENT ASSETS :</u>				
Cash and Bank balances	95.10	117.02	+21.92	+23.05
Short-term loans	865.61	834.84	-30.77	-3.55
1/5th of Medium-term loans	221.63	287.41	+65.78	+29.68
1/15th of long-term loans	5.29	5.00	-0.29	-5.48
Interest receivable	24.85	43.85	+19.00	+76.46
Stock	5.47	6.39	+0.92	+16.82
Other Debts	5.13	4.11	-1.02	-19.88
B/R Being Bills for Collection	0.96	-	-0.96	-100.00
Dr.Bal. of Karad Society	0.01	-	-0.01	-100.00
TOTAL CURRENT ASSETS	1224.05	1298.62	+74.57	+6.09
<u>FIXED ASSETS</u> (Less Depreciation)				
Building	13.60	13.88	+0.28	+2.06
Furniture	21.11	22.33	+1.22	+5.78
Library	0.02	0.02	-	-
Vehicles	0.04	0.03	-0.01	-25.00
Other fixed assets	4.02	5.22	+1.20	+29.85
Total Fixed Assets	38.79	41.48	+2.69	+6.93
<u>MISCELLANEOUS ASSETS :</u>				
Investments	366.42	432.37	+65.95	+18.00
4/5th of medium-term loans	886.52	1149.63	+263.11	+29.68
14/15th of long-term loans	74.13	69.99	-4.14	-5.58
TOTAL MISCELLANEOUS ASSETS	1327.07	1651.99	+324.92	+24.48
TOTAL ASSETS	2589.91	2992.09	+402.18	+15.53

continued

	31 st March		Absolute increase (+) or Decrease(-) in 1994	percentage increase (+) or Decrease(-) in 1994
<u>LIABILITIES & CAPITAL :</u>	1993	1994		
<u>CURRENT LIABILITIES :</u>				
12.22% of time Deposit	114.60	119.52	+4.92	+4.29
Savings Deposit	245.40	315.05	+69.65	+28.38
Current Deposit	0.41	0.37	-0.04	-9.76
Nishkriya Deposit	2.27	3.63	+1.36	+59.91
Matured time Deposit	9.48	23.27	+13.79	+145.46
Loans from D.C.C. Bank	299.15	284.45	-14.70	-4.91
Bills for collection being B/R	0.95	-	-0.95	-100.00
<u>Interest Payable ;</u>				
1) 1/7th of Int. on Deposit	35.78	43.11	+7.33	+20.49
2) D.C.C. Bank loans Int	3.53	2.96	-0.57	-16.15
Other Creditors	17.07	19.49	+2.42	+14.18
Total current liabilities	728.64	811.85	+83.21	+11.42
<u>TERM LIABILITIES :</u>				
Total long term deposits	1334.03	1559.60	+225.57	+16.91
Int. payable on long term Deposits	214.66	258.62	+43.96	+20.48
Total other reserves	26.96	37.97	+11.01	+40.84
Total term liabilities	1575.65	1856.19	+280.54	+17.80
Total outside liabilities	2304.29	2668.04	+363.75	+15.79
<u>CAPITAL & RESERVES :</u>				
Share capital	182.32	215.30	+32.98	+18.09
Reserve Fund	40.57	56.59	+16.02	+39.49
Dividend Equalisation Reserve	0.28	6.51	+6.23	+22.25
Profit & Loss a/c	62.45	45.65	-16.80	-26.90
Net worth/Total share-holders funds	285.62	324.05	+38.43	+13.45
TOTAL LIAB. & CAPITAL	2589.91	2992.09	+402.18	+15.53
Net Working Capital	495.41	486.77	-8.64	-1.74

SOURCE : Annual Reports of the Bank.

The comparative study of the Balance Sheets for 1993 and 1994 reveal as under :

There is an increase both in fixed assets and current assets. The total fixed assets have increased by Rs.2.69 lakhs i.e. by 6.93% and the current assets by Rs.74.57 lakhs i.e. by 6.09%. The long term miscellaneous assets have increased by Rs.324.92 lakhs or by 24.48% and share capital has also gone up by Rs.32.98 lakhs or by 18.09%. Fixed assets and long-term miscellaneous assets have increased by Rs.327.61 lakhs whereas capital and long-term liabilities have increased by Rs.313.52 lakhs only, it indicates that fixed assets and long-term miscellaneous assets have excessively increased by Rs.14.09 lakhs than the long-term liabilities and share capital. It is clear that the working capital is used to finance the fixed assets and long-term miscellaneous assets, to the extent of Rs.14.09 lakhs. The current liabilities have increased by Rs.83.21 lakhs i.e. by 11.42% whereas the increase in current assets is Rs.74.57 lakhs i.e.6.09%. It shows that the total current liabilities have increased more than the total current assets which might have affects to certain extent the short-term solvency of the Bank. The cash & bank balances have increased by Rs.21.92 lakhs or by 23.05%, whereas the short-term loans have reduced by Rs.30.77 lakhs or by 3.55%. This indicates favourable position for the short-term solvency. The proprietor's funds for the year 1994 have increased by Rs.38.43 lakhs or by 13.45%. During the year 1994, the current liabilities constitution within has changed. Especially the savings

deposit have increased by Rs.69.65 lakhs i.e. by 28.38% and loans from D.C.C. Bank have reduced by Rs.14.70 lakhs or by 4.91%. This indicates that the bank was trying to become self sufficient regarding financial resources during the year 1994.