

CHAPTER VII
TREND ANALYSIS

- 7.1 INTRODUCTION
- 7.2 Methods of Trend Analysis
- 7.3 Utility of Trend Analysis
- 7.4 Calculation of Trend percentages and their interpretation.
- 7.5 Graphical representation of Trend percentages

CHAPTER VII
TREND ANALYSIS

7.1 INTRODUCTION

One of the important methods of studying the history of any organisation is to analyse the time series and to know more about the past performance. One of the components of time-series is long term trend.

For the purpose of comparative study of financial statements over a number of years, trend percentages are very useful. Usually the 1st year is taken as base year and each item in this year is taken as 100. The percentages are calculated for the subsequent years. As the large amounts are reduced to percentages, it becomes easier to compare and understand the underlying trends and directions of change.

7.2 METHODS OF TREND ANALYSIS :

Trend analysis can be done in following three ways.

1. TREND PERCENTAGES :

In this method a statement is taken as the base with reference to which all other statements are to be analysed, for the figure of next year, the figure of the last year works as base as in the case of chain base index numbers. This method suffers from the lack of continuity. Hence to remove this defect, the fixed base method is applied. Such fixed base trend percentages show the increase or decrease of annual figures.

2. TREND RATIOS :

The second method of trend analysis is the calculation

of trend ratios. In this method, the base year figure is taken as 100 and then figures of the subsequent years are shown in the term percentages. Thus, this method is like fixed base index numbers. It can show the trend in operating results but financial position of a concern cannot be explained.

3. GRAPHIC AND DIAGRAMMATIC REPRESENTATION :

The trend values can be shown on graph paper also. Such presentation of the figures relieves a layman from the gherao of data.

7.3 UTILITY OF TREND ANALYSIS :

1. It is a simple technique. It does not involve tedious calculations and does not require trained experts.
2. It is a method to indicate the future trends.
3. It reduces the chances of errors as it provides the opportunity to compare the percentages with absolute figures.

7.4 CALCULATION OF TREND PERCENTAGES AND

THEIR INTERPRETATION :

We will be calculating the trend percentages for the major components of the financial statements viz, deposits, loans and advances, profits and dividend of the Bank for the last ten years under our study. We shall take the year 1985 as the base year. The deposits are classified as time deposits & other deposits for the purpose of determining the direction of change.

TABLE NO. 7.1

TABLE SHOWING TREND PERCENTAGES OF DEPOSITS

Year	Amount of time deposit (Rs. in lakhs)	Trend percentages (Base year 1985)	Amount of other deposit Rs. in lakhs	Trend percentages (Base year 1985)
1985	296.79	100,	60.94	100
1986	395.19	133	80.60	132
1987	503.25	170	103.30	170
1988	632.15	213	115.01	189
1989	761.65	257	154.76	254
1990	934.13	315	202.06	332
1991	1,131.84	381	230.06	378
1992	1,228.41	414	242.72	398
1993	1,458.11	491	248.08	407
1994	1,702.39	574	319.05	524

SOURCE : Balance sheet of the Bank.

The above table reveals that the time deposits and other deposits show an increasing trend. The growth in the time deposits is also accompanied by the growth in other deposits. The time deposits in 1986 have increased by 33% as compared to the base year 1985. In 1987 the time deposits have increased by 70% and this increasing trend continued. The time deposits in 1994 have increased by 474% as compared to the base year 1985. Similarly, the other deposits have also increased by 424% in the year 1994 as compared to the base year 1985. It is clear that the trend of the time

deposit and other deposits have shown a rising tendency year after year.

7.5 GRAPHICAL REPRESENTATION OF TREND PERCENTAGES :

The following graphs shows that there has been a sharp increase in the deposit mobilised by the Bank.

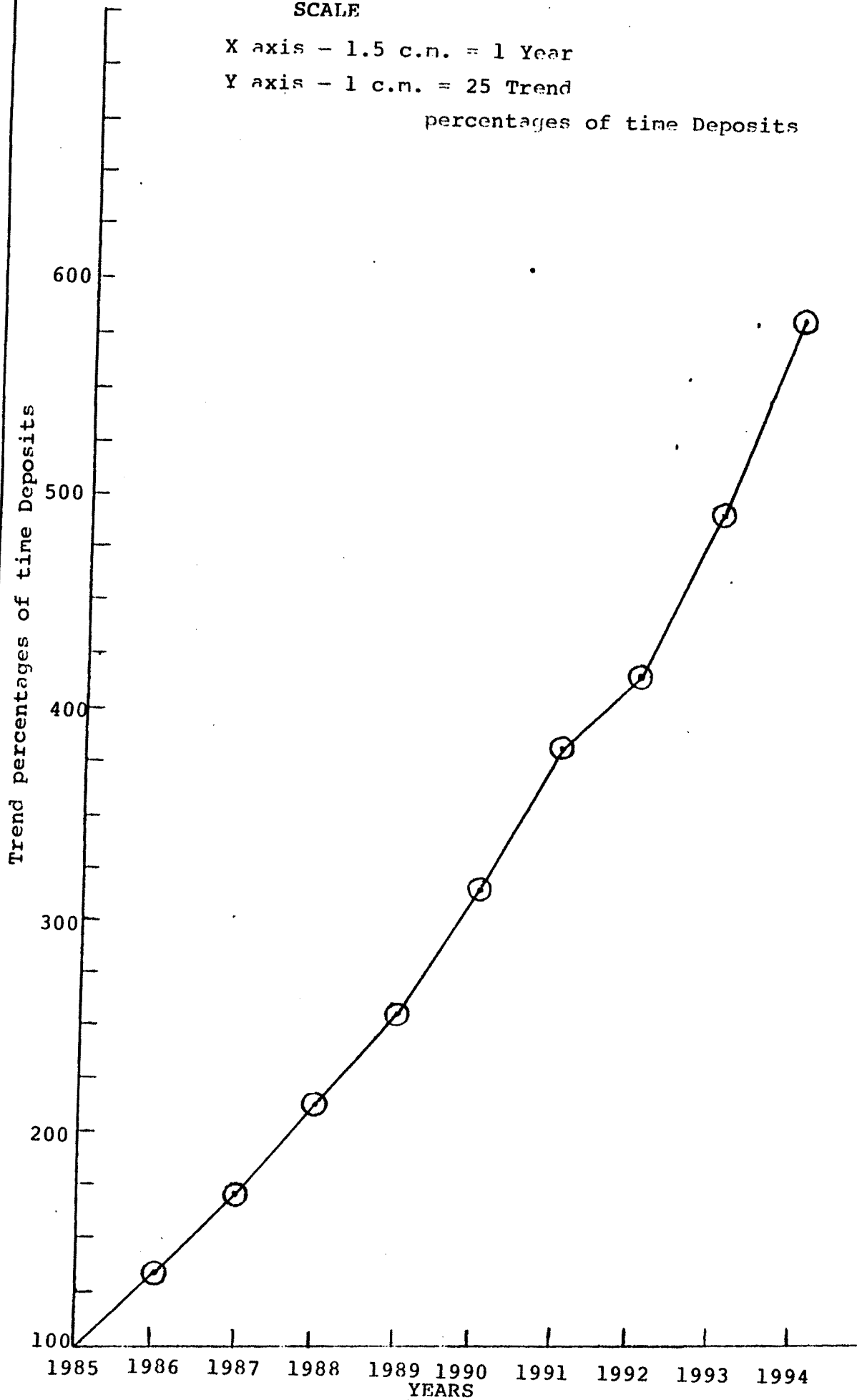
7.1 GRAPH SHOWING TRENDPERCENTAGES OF TIME DEPOSIT149

SCALE

X axis - 1.5 c.m. = 1 Year

Y axis - 1 c.m. = 25 Trend

percentages of time Deposits



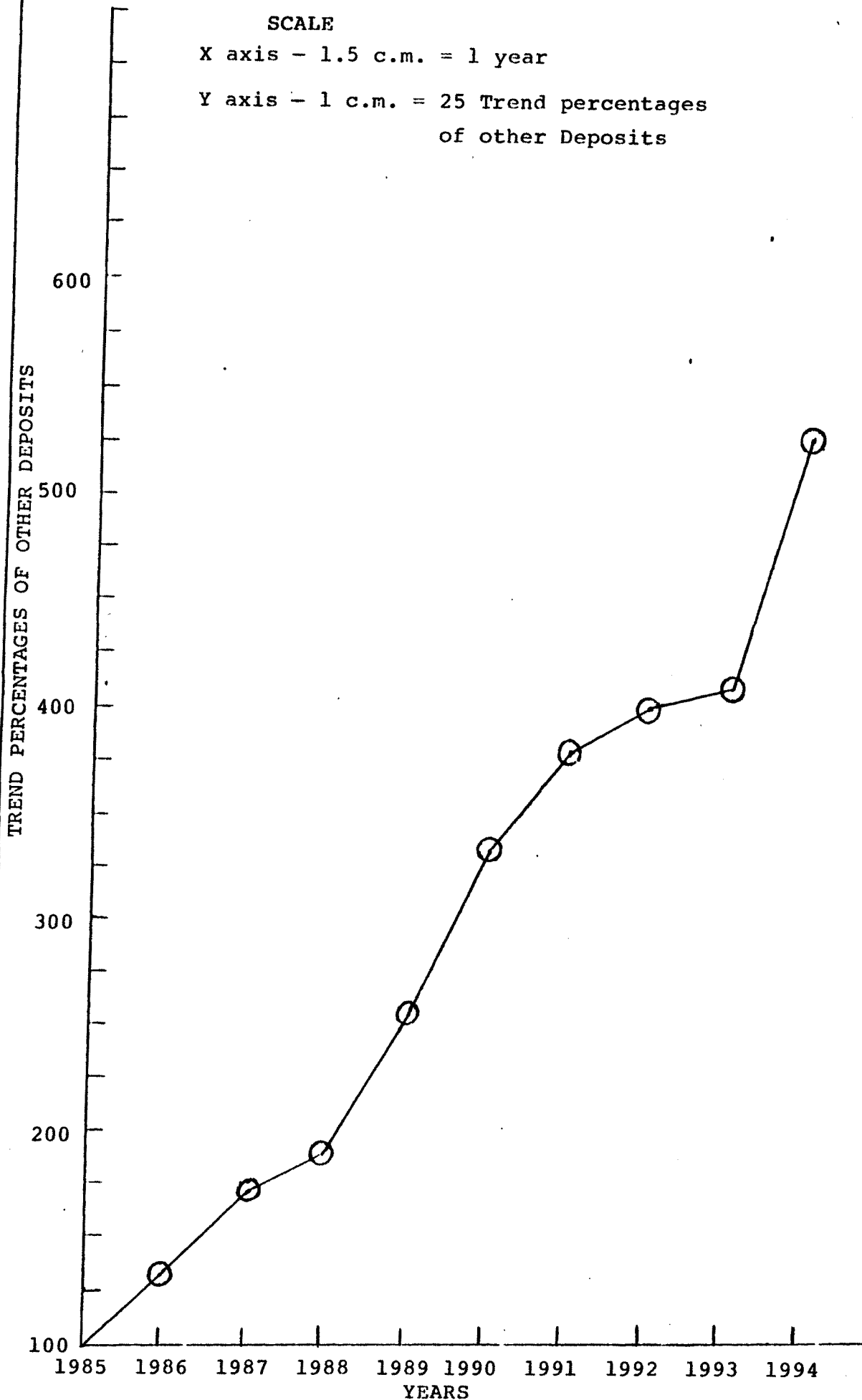
7.2 GRAPH SHOWING TREND PERCENTAGES OF OTHER DEPOSIT

SCALE

X axis - 1.5 c.m. = 1 year

Y axis - 1 c.m. = 25 Trend percentages
of other Deposits

150



The business of the Bank depends on mobilisation of deposits and giving loans & advances. The earning capacity of the Bank depends on Interest earned by the bank on such loans & advances.

In order to have comparative idea of the rising trend of the loans & advances of the Bank over the last 10 years. We are preparing the following table showing the percentage increase.

TABLE 7.2

TABLE SHOWING SHORT-TERM, MEDIUM-TERM AND
LONG-TERM LOANS TREND PERCENTAGES

Year	Amount of short term Loans (Rs. in lakhs)	Trend of short term tages Base year 1985	Amount of medium term loans (Rs. in lakhs)	Trend of medium term tages Base year 1985	Amount of long term loans (Rs. in lakhs)	Trend of long term percentages Base year 1986
1985	104.48	100	337.72	100	—	—
1986	244.28	234	305.69	91	7.19	100
1987	314.99	301	387.21	115	12.82	178
1988	398.55	381	479.17	142	20.49	285
1989	492.99	472	566.38	168	35.95	500
1990	604.97	579	777.39	230	48.11	669
1991	675.54	647	1042.03	309	63.81	887
1992	752.55	720	1024.38	303	73.97	1029
1993	865.61	828	1108.14	328	79.42	1105
1994	834.84	799	1437.04	426	74.98	1043

SOURCE : Balance Sheets of the Bank.

The table shows that the short-term, medium-term and long-term loans show the increasing trend. When we compare the increasing trend of long-term loans with the increasing trend of short-term and medium-term loans, we find that the long term loans have increased faster. In between short-term loans and medium-term loans, the increase in short-term loans is higher than the medium-term loans. The short-term loans shows an increasing trend from the year 1985 to 1993.

In 1993 the short-term loans have increased by 728% as compared to the base year 1985, but in 1994 short-term loans have decreased by 29% as compared to the previous year i.e. 1993.

The medium-term loans have decreased in 1986 by 9% as compared to the base year 1985. From the year 1987 to 1991, they show an increasing trend and again in the year 1992 they have decreased by 6% as compared to the results of the previous year. Further in 1993 and 1994 medium-term loans have shown increasing trend. In 1994, medium-term loans have increased by 326% as compared to the base year 1985.

The long-term loans have shown increasing trend from the year 1986 to 1993. The long-term loans have increased by 1005% as compared to the base year 1986, which is the record during the last 9 years But they have decreased by 62% in the year 1994 as compared to the loans during the previous year i.e. 1993.

If we plot the above percentages on a graph paper we can visualise that the long-term loans have increased sharply than the short-term and medium-term loans. In between, the short-term and medium-term loans, the short-term loans have increased at a faster rate.

7.3 GRAPH SHOWING SHORTTERM, MEDIUM-TERM AND LONG-TERM LOANS TREND PERCENTAGES OF THE BANK FOR THE PERIOD 1985 to 1994

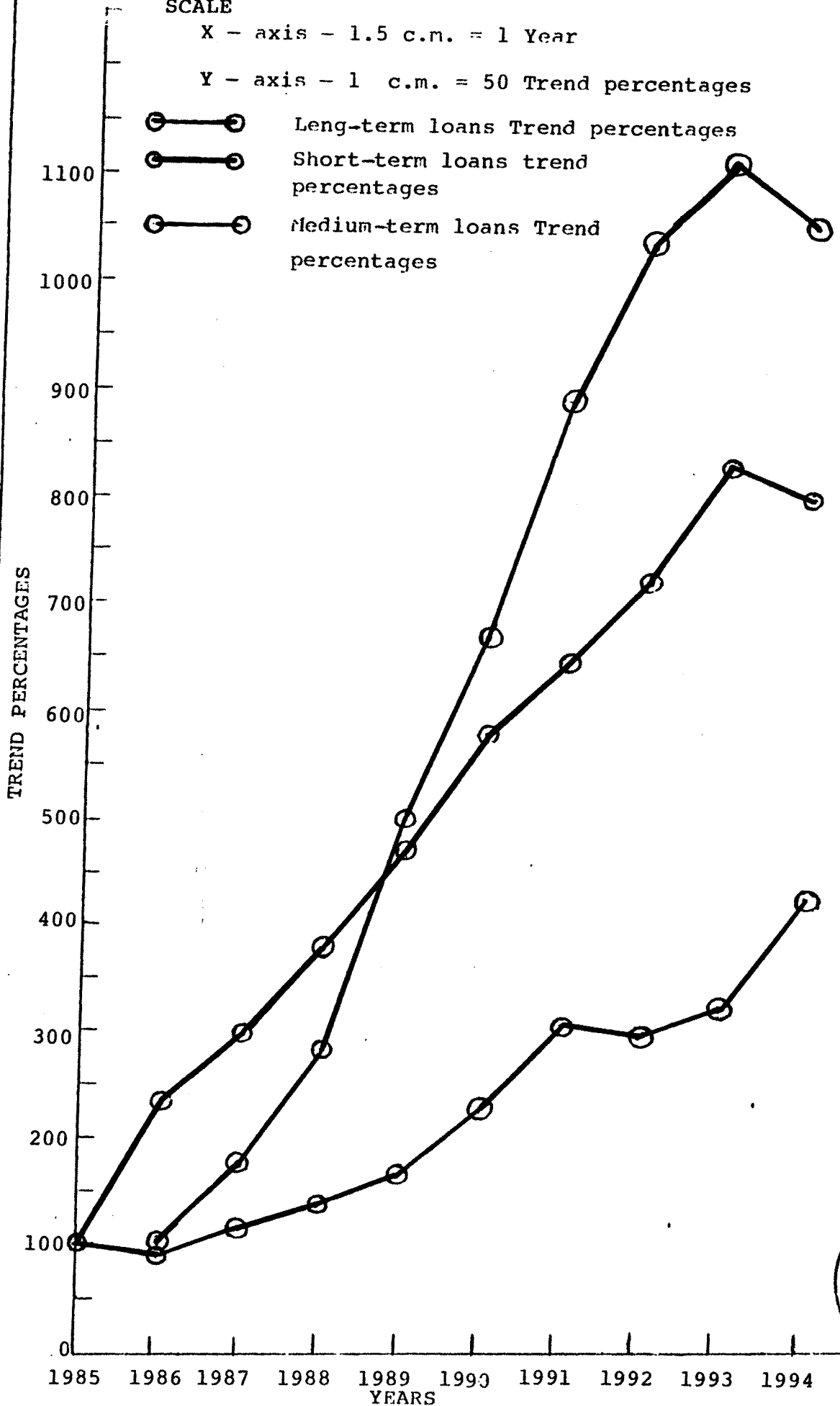


TABLE 7.3
TABLE SHOWING THE NET PROFIT, AND
DIVIDEND WITH TREND PERCENTAGES
(Base year 1985)

Year	Net profit (Rs in lakhs)	Trend Percentages	Rate of dividend	Trend Percentages
1985	4.23	100	4.5	100
1986	7.37	174	7	156
1987	10.39	246	9	200
1988	12.73	301	9.5	211
1989	16.00	378	10	222
1990	19.30	456	10.5	233
1991	20.77	491	10.5	233
1992	29.58	699	12	267
1993	62.45	1476	20	444
1994	45.65	1079	12	267

SOURCE : Annual Reports of the Bank.

The net profits show an increasing trend from the year 1985 to 1993. In the year 1992 and 1993, the net profits of the Bank increased fast. Especially the net profit in 1993 have increased by 1376% as compared to the base year i.e. 1985. But they have again decreased by 397% in the year 1994 as compared to the previous year i.e. 1993.

The rate of dividend paid also shows an increasing trend from the year 1985 to 1993. In 1993, the rate of dividend has increased by more than 3 times as compared to the base year 1985. However, in the year 1994, it has

decreased by 177% as compared to the previous year. Excepting the year 1994 the net profits & dividends distributed have risen rapidly.

Now let us present the above data on a graph paper. It will help us in getting idea as to the yearly developments in regard to the profits & dividends of the Bank.

TREND PERCENTAGES OF THE BANK FOR THE YEARS 1985 to 1994

SCALE

X AXIS - 1.5 c.m. = 1 year

Y axis - 1 c.m. = 75 Trend percentages

- Net profit trend percentages
- Dividend rates trend percentages

