A

RESEARCH REPORT ON

"FINANCIAL STATEMENT OF RAJVIR INDUSTRIES LTD."

Submitted to

Department of Commerce

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Under the faculty of Commerce

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CERTIFICATE

This is to certify that the project work entitled

A REPORT ON

"A STUDY ON FINANCIAL STATEMENT OF RAJVIR INDUSTRIES. LTD".

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Of Dr. BRR. Govt Degree College Jadcherla has duly completed their project under my supervision. The entire work has been done under my guidance and that no part of it has been submitted previously for any degree or diploma of any University. It is their own work and facts reported by their personal findings and investigation.

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DECLARATION

We hereby declare that the work embodied in this project work titled A STUDY ON **"FINANCIAL STATEMENT OF RAJVIR INDUSTRIES"** forms our own contribution to the research work carried out under the guidance of **E VENKAT REDDY** is a result of our own research work and has not been previously submitted to any other University for any other Degree / Diploma to this or any other University.

Wherever reference has been made to previous work of others, it has been clearly indicated as such and included in the bibliography.

We, hereby further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

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CHAPTER 1

INTRODUCTION

1 INTRODUCTION

1.1 Introduction

Meaning of Financial Statement

Financial statements refer to such statements which contain financial information about an enterprise. They report profitability and the financial position of the business at the end of the accounting period. The team financial statement includes at least two statements which the accountant prepares at the end of an accounting period. The two statements are: -

- The Balance Sheet
- Profit And Loss Account

They provide some extremely useful information to the extent that balance Sheet mirrors the financial position on a particular date in terms of the structure of assets, liabilities and owner's equity, and so on and the Profit and Loss account shows the results of operations during a certain period of time in terms of the revenues obtained and the cost incurred during the year. Thus the financial statement provides a summarized view of financial position and operations of a firm

Meaning of Financial Analysis

The first task of financial analysis is to select the information relevant to the decision under consideration to the total information contained in the financial statement. The second step is to arrange the information in a way to highlight significant relationships. The final step is interpretation and drawing of inference and conclusions. Financial statement is the process of selection, relation and evaluation.

Features of Financial Analysis

- To present complex data contained in the financial statement in simple and understandable form.
- To classify the items contained in the financial statement inconvenient and rational groups.
- To make comparison between various groups to draw various conclusions.

Purpose of Analysis of financial statements

- To know the earning capacity or profitability.
- To know the solvency.
- To know the financial strengths.
- To know the capability of payment of interest & dividends.
- To make comparative study with other firms.
- To know the trend of business.
- To know the efficiency of Management.
- To provide useful information to Management

1.2 Procedure of Financial Statement Analysis

- The following procedure is adopted for the analysis and interpretation of financial statements:-

- The analyst should acquaint himself with principles and postulates of accounting. He should know the plans and policies of the management so that he may be able to find out whether these plans are properly executed or not.

- The extent of analysis should be determined so that the sphere of work may be decided. If the aim is to find out. Earning capacity of the enterprise then analysis of income statement will be undertaken. On the other hand, if financial position is to be studied then balance sheet analysis will be necessary.

- The financial data given in the statement should be recognized and rearranged. It will involve the grouping of similar data under the same heads. Breaking down individual components of a statement according to nature. The data is reduced to a standard form. A relationship is established among financial statements withthe help of tools & techniques of analysis such as ratios, trends, common size, fund flow etc.

- The information is interpreted in a simple and understandable way. The significance and utility of financial data is explained to help indecision making.

- The conclusions drawn from interpretation are presented to the management in the form of reports.

Analyzing financial statements involves evaluating three characteristics of a company: its liquidity, its profitability, and its insolvency. A short-term creditor, such as a bank, is primarily interested in the ability of the borrower to pay obligations when they come due. The liquidity of the borrower is extremely important in evaluating the safety of aLoan. A long-term creditor, such as a bond holder, however, looks to profitability and solvency measures that indicate the company's ability to survive over a long period of time.Loan. A long-term creditor, such as a bond holder, however, looks to profitability and solvency measures that indicate the company's ability to survive over a long period of time.

1.3 Tools of Financial Statement Analysis

Various tools are used to evaluate the significance of financial statement data. Three commonly used tools are these:

- Ratio Analysis
- Funds Flow Analysis
- Cash Flow Analysis

Ratio Analysis:

Fundamental Analysis has a very broad scope. One aspect looks at the general (qualitative) factors of a company. The other side considers tangible and measurable factors (quantitative). This means crunching and analyzing numbers from the financial statements. If used in conjunction with other methods, quantitative analysis can produce excellent results.

Ratio analysis isn't just comparing different numbers from the balance sheet, income statement, and cash flow statement. It's comparing the number against previous years, other companies, the industry, or even the economy in general. Ratios look at the relationships between individual values and relate them to how a company has performed in the past, and might perform in the future.

Meaning of Ratio:

A ratio is one figure expressed in terms of another figure. It is a mathematical yardstick that measures the relationship between two figures, which are related to each other and mutually interdependent. Ratio is expressed by dividing one figure by the other related figure. Thus a ratio is an expression relating one number to another. It is simply the quotient of two numbers. It can be expressed as a fraction or as a decimal or as a pure ratio or in absolute figures as “so many times”. An accounting ratio is an expression relating two figures or accounts or two sets of account heads or groups contained in the financial statements.

Meaning of Ratio Analysis:

Ratio analysis is the method or process by which the relationship of items or group of items in the financial statement are computed, determined and presented.

Ratio analysis is an attempt to derive quantitative measures or guides concerning the financial health and profitability of business enterprises. Ratio analysis can be used both in trend and static analysis. There are several ratios at the disposal of an analyst but their group of ratios he would prefer depends on the purpose and the objective of analysis.

While a detailed explanation of ratio analysis is beyond the scope of this section, we will focus on a technique, which is easy to use. It can provide you with a valuable investment analysis tool.

This technique is called cross-sectional analysis. Cross-sectional analysis compares financial ratios of several companies from the same industry. Ratio analysis can provide valuable information about a company's financial health. A financial ratio measures a company's performance in a specific area. For example, you could use a ratio of a company's debt to its equity to measure a company's leverage. By comparing the leverage ratios of two companies, you can determine which company uses greater debt in the conduct of its business. A company whose leverage ratio is higher than a competitor's hasmore debt per equity. You can use this information to make a judgment as to which company is a better investment risk.

However, you must be careful not to place too much importance on one ratio. You obtain a better indication of the direction in which a company is moving when several ratios are taken as a group.

Fund Flow Analysis

Fund may be interpreted in various ways as

(a) Cash,

(b) Total current assets,

(c) Net working capital,

(d) Net current assets.

For the purpose of a fund flow statement the term means net working capital. The flow of funds will occur in a business, when a transaction results in a change i.e., increase or decrease in the amount of funds.

According to Robert Anthony the funds flow statement describes the sources from which additional funds were derived and the uses to which these funds were put.

In short, it is a technical device designed to highlight the changes in the financial condition of a business enterprise between two balance sheets.

Different names of Fund-Flow Statement

- A Funds Statement
- A statement of sources and uses of fund
- A statement of sources and application of fund
- Where got and where gone statement
- outflow Inflow and of fund statement

Cash Flow Analysis

Cash is the life blood of business. It is an important tool of cash planning and control. A firm receives cash from various sources like sales, debtors, sale of assets, investments etc. Likewise, the firm needs cash to make payment to salaries, rent dividend, interest etc.

Cash flow statement reveals that inflow and outflow of cash during a particular period. It is prepared on the basis of historical data showing the inflow and outflow of cash.

1.4 Importance Of Financial Analysis

The financial analysis is important for different reasons:

1. HoldingOfShare

Shareholders are the owners of the company. Time and again, they may have to make decisions whether they have to continue with the holdings of the company's shares or sell them out. The financial statement analysis is important as it provides meaningful information to the shareholders in taking such decisions.

2. Decisions And Plans

The management of the company is responsible for taking decisions and formulating plans and policies for the future. They, therefore, always need to evaluate the performance and effectiveness of their actions to realize the company's goal in the past. For that purpose, financial statement analysis is important to the company's management.

3. Extension Of Credit

The creditors are the providers of loan capital to the company. Therefore they may have to make decisions as to whether they have to extend their loans to the company and demand for higher interest rates. The financial statement analysis provides important information to them for their purpose.

4. Investment Decision

The prospective investors are those who have surplus capital to invest in some profitable opportunities. Therefore, they often have to decide whether to invest their capital in the company's shares. The financial statement analysis is important to them because they can obtain useful information for their investment decision making purpose.

1.5 Advantages Of Financial statements

1. It simplifies the financial statements.
2. It helps in comparing companies of different sizes with each other.
3. It helps in trend analysis which involves comparing a single company over a period.
4. It highlights important information in simple form quickly. A user can judge a company by just looking at a few numbers instead of reading the whole financial statements.

1.6 Limitations of financial statement analysis

1. Not a Substitute of Judgment

An analysis of a financial statement cannot take the place of sound judgment. It is only a means to reach conclusions. Ultimately, the judgments are taken by an interested party or analyst on his/ her intelligence and skill.

2. Based on Past Data

Only past data of accounting information is included in the financial statements, which are analyzed. The future cannot be just like the past.

Hence, the analysis of financial statements cannot provide a basis for future estimation, forecasting, budgeting and planning.

3. Problem in Comparability

The size of business concern is varying according to the volume of transactions. Hence, the figures of different financial statements lose the characteristic of comparability.

4. Reliability of Figures

Sometimes, the contents of the financial statements are manipulated by window dressing. If so, the analysis of financial statements results in misleading or meaningless.

5. Various methods of Accounting and Financing

The closing stock of raw material is valued at purchase cost. The closing stock of finished goods is valued at market price or cost price whichever less is. In general, the closing stock is valued at cost price or market price whichever less is. It means that the closing stock of raw material is valued at cost price or market price whichever less is. So; an analyst should keep in view these points while making analysis and interpretation otherwise the results would be misleading.

6. Change in Accounting Methods

There must be uniform accounting policies and methods for a number of years. If there are frequent changes, the figures of different periods will be different and incomparable. In such a case, the analysis has no value and meaning.

7. Changes in the Value of Money

The purchasing power of money is reduced from one year to the subsequent year due to inflation. It creates problems in comparative study of financial statements of different years.

8. Limitations of the Tools Application for Analysis

There are different tools applied by an analyst for an analysis Even though the application of a particular tool or technique is based on the skill and experience of the analyst. If an unsuitable tool or technique is applied, certainly, the results are misleading.

9. No Assessment of Managerial Ability

The results of the analysis of financial statements should not be taken as an indication of good or bad management. Hence, the managerial ability cannot be assessed by analysis.

10. Change of Business Condition The conditions and circumstances of one firm can never be similar to another firm. Likewise, the business condition and circumstances of one year to subsequent can never be similar. Hence, it is very difficult to analyze and compare one firm with another.

1.7 Statement of the Problem

Financial statement analysis can be a very useful tool for understanding a firm's performance and conditions. However, there are certain problems and issues encountered in such analysis which call for care, circumspection, and Judgment.Problems in Financial Statement Analysis:
You have to cope with the following while analyzing financial statements:

Lack of an Underlying Theory: The basic problem in financial statement analysis is that there is no theory that tells us which numbers to look at and how to interpret them. In the absence of an underlying theory financial statement analysis appears to be ad hoc, informal and subjective. From a negative viewpoint, the most striking aspect of ratio analysis is the absence of an explicit theoretical structure.As a result the subject of ratio analysis is replete with untested assertions about which ratios should be used and what their proper levels should be.

Conglomerate Firms: Many firms, particularly the large ones, have operations spanning a wide range of industries. Given the diversity of their product lines, it is difficult to find suitable benchmarks for evaluating their financial performance and condition. Hence, it appears that meaningful benchmarks may be available only for firms which have a well defined industry classification.

Window Dressing: Firms may resort to window dressing to project a favorable financial picture. For example, a firm may prepare its balance sheet at a point when its inventory level is very low. As a result, it may appear that the firm has a very comfortable liquidity position and a high turnover of inventories. When window dressing of this kind is suspected, the financial analyst should look at the averageLevel of inventory over a period of time and not the level of inventory at just one point of time.

Variations in Accounting Policies: Business firms have some latitude in the accounting treatment of items like depreciation, valuation of stocks, research and development expenses, foreign exchange transactions, installment sales, preliminary and pre-operative expenses, provision of reserves, and revaluation of assets. Due to the diversity of accounting policies found in practice, comparative financial statement analysis may be vitiated.

Interpretation of Results: Though industry average and other yardsticks are commonly used in financial ratios, it is somewhat difficult to judge whether a certain ratio is good or bad. A high current ratio, for example, may indicate a strong liquidity position (something good) or excessive inventories (something bad). Likewise a high turnover of fixed assets may mean efficient utilization of plant and machinery or continued flogging of more or less fully depreciated worn out and inefficient plant and machinery.

Another problem in interpretation arises when a firm has some favorable ratios and some unfavorable ratios and this is rather common. In such a situation, it may be somewhat difficult to form an overall judgment about its financial strength or weakness. Multiple discriminateanalysis, a statistical tool, may be employed to sort out the net effect of several ratios pointing in different directions.

Correlation among ratios: Notwithstanding the previous observation, financial ratios of a firm often show a high degree of correlation. This is because several ratios have some common element (sales for example, are used in various turnover ratios) and several items tend to move in harmony because of some common underlying factor. In view of ratio correlations, it is redundant and often confusing to employ a large number of ratios in financial statement analysis. Hence it is necessary to choose a small group of ratios from a large set of ratios. Such a selection requires a good Understanding of the meaning and limitations of various ratios and an insight into the economies of the business.

1.8 OBJECTIVES OF THE STUDY

- To allow comparisons to be made which assist in predicting the future.
- To investigate the reasons for the changes.
- To construct a simple explanation of a complicated financial statement by its expression in one figure.
- To permit the charting of a firm’s history and the evaluation of its present position.
- To provide indicators of a firm’s past performance in terms of its operational activityand profitability;
- To see what information users can get from the accounting system output.
- To estimate the earning capacity of the enterprise.
- To gauge the financial position and financial performance of the firm.
- To determine the long term liquidity of the funds as well as solvency.
- To determine the debt capacity of the business.
- To decide about the future prospects of the firm.

1.9 NEED OF STUDY

The term financial analysis is applied to almost any kind of detailed inquiry into financial data.is a technical tool in the hands of financial executives to measure the financial progress.Analysis of financial statement is an attempt to determine the significance and meaning of the financial statement data so that a forecast can be made of the prospects of the future earnings, ability to play interest debt maturities both current as well as long term and probability of a sound dividend policy.

In the words of Myer's "Financial statement analysis is largely a study of relationships 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".

CHAPTER 2

REVIEW OF LITERATURE

2. REVIEW OF LITERATURE

2.1 Literature review

The Literature review of this study will emphasize the related studies on comparing and analyzing financial statements to make an investment.

The basis of financial planning analysis and decision making is the financial information (Statements). Financial statements are needed to predict, compare and evaluate a firm's earning ability. It is also required to aid in economic decision making investment and financing decision making. The financial information of an enterprise is contained in the financial statements. The use of financial statement analysis in investment decisions has been addressed by a series of authors.

According to Gautam, U. S. (2005) Accountancy Financial Statement is generally explained as financial information which is the information relating to the financial position of any firm in a capsule form. Financial statement according to J. AOhison (1999) was defined as a written report that summarizes the financial status of an organization for a stated period of time. It includes an income statement and balance sheet or statement of the financial position describing the flow of resources, profit and loss and the distribution or retention of profit.

According to Pandey, I.M. (2005 Financial management) profitability is the ability of an entity to earn income. It can be assessed by computing various relevant measures including the ratio of net sales to assets, the rate earned on total assets etc.
According to Meigns et al. (2001), Financial Statement simply means a declaration of what is believed to be true and which, communicated in terms of monetary units. It describes certain attributes of a company that is considered to fairly represent its financial activities.

Meigs and Meigs (2003) stated that the rate of return on investment (ROI) is a test of management's efficiency in using available resources. This review is organized under the following sub-heads for ease of comprehension.

I. What is a financial statement?

II. Objective of financial statement analysis

III. Uses and users of financial statement analysis

IV. Classification of financial statement

V. Relationship among the Statement of Financial Position, Income Statement, Statement of Cash Flows and Statement of Retained Earnings.

VI. Techniques of financial statement analysis

VII. Limitations of financial statement analysis

VIII. Impact of inflation on financial statement analysis

I. What is a Financial Statement?

According to Meigs and Meigs (2003), financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet these objectives, financial statements provide information about an entity's:

a) Assets

b) Liabilities

c) Equity

d) Income and expenses, including gains and losses

e) Contribution by and distribution to owners in their capacity as owners, and

f) cash flows A complete set of financial statement comprises:

1) A statement of financial position as at the end of the period:

2) A statement of comprehensive income for the period;

3) A statement of changes in equity for the period:

4) A statement of cash flow for the period.

5) Notes of Account comprising a summary of significant accounting policies and other explanatory information; and

6) A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements.

II. Objective of a Financial Statement Analysis

Business decisions are made on the basis of the best available estimates of the outcome of such decisions. According to Meigs and Meigs (2003), the purpose of financial statement analysis is to provide information about a business unit for decision making purposes and such information need not to be limited to accounting data. White ratios and other relationships based on past performance may be helpful in predicting the future earnings performance and financial health of a company, we must be aware of the inherent limitations of such data.

According to Meigs and Meigs (2003), the key objectives of financial analysis are to determine the company's earningsPerformance and the soundness and liquidity of its financial position. We are essentially interested in financial analysis as a predictive tool.

Accordingly, we want to examine both quantitative and qualitative data in order to ascertain the quality of earnings and the quality and protection of assets. In periods of recession when business failures are common, the balance sheet takes on increased importance because the question of liquidity is uppermost in the minds of many in the business community.
However, when business conditions are good, the income statement receives more attention.

Nevertheless, a financial analyst has to grapple on the above complexities of using financial statement analysis to achieve a specific purpose.

III. Uses and Users of Financial Statement

According to Akpan (2002), financial statement may be used by users for different purposes:

a) **OWNERS AND MANAGERS:** Require financial statements to make important business decisions that affect its operations. Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures. These statements are also used as part of management's annual report to the stockholders.

b) **EMPLOYERS**: Also need these reports in making collective bargaining agreements (CBA) with the management, in the case of labor unions or for individuals in discussing their compensation promotion and rankings.

c) **PROSPECTIVE INVESTORS:** They make use of financial statements to assess the viability of investing in a business. Financial analysis is often used by investors and is prepared by professionals (financial analyst), thus providing them with the basis for making investment decisions.

d) FINANCIAL INSTITUTIONS: Financial institutions (banks and other lending companies) use them to decide whether to grant a company with fresh working capital or extend debt securities (such as a long term bank loan or debentures) to finance expansion and other significant expenditures.

e) GOVERNMENT ENTITIES: Government entities (Tax authorities) need financial statements to ascertain the property and accuracy of taxes and other duties declared and paid by a company.

f) VENDORS: They require financial statement to access the credit worthiness of the business

g) MEDIA AND GENERAL PUBLIC: They are also interested in financial statements for a variety of reasons.

IV. Classification of Financial Statement

According to Diamond (2006), all watchful business owners have an innate sense of how well their business is doing. Almost without thinking about it, these business owners can tell you any time during the month how close they are to butting budgeted figures. Certainly, cash in the bank plays a part, but it's more than that. Helpful is the nowtine review of financial statements. They are three types of financial statements. Each will give important information about how efficient and effective the business is operating.

Income statement, balance sheet and statement of cash flow are the basic and the most important financial statements which interpret the quantitative data of a company’s performance. Whereas footnotes have the qualitative explanation for the major transactions and the accounting policy adopted while formulating the financial statements. The publicly traded companies publish their financial statements quarterly.

a) Income Statement

Income statement measures the company profitability over a period of time. In the income statement, the net income is calculated by subtracting all the expenses from income. According to Patrick, Ralph, Barry & Susan (2002;63-92), income statements provide the information of the transactions occurring in a certain period

Of time called accounting period. Expenses include purchase, administrative expenses, selling expenses, depreciation, amortization expenses and income tax paid. Initially gross profit is calculated by subtracting the cost of goods sold from net sales. Cost of goods sold is the expense incurred from the sales of the goods,

Labor cost, raw materials and overhead expenses occurred during the sales period falls under the cost of goods sold category.

Operating income is calculated by subtracting the depreciation and the other selling and administrative expenses. From the operating income, interest and/or amortization is paid which will result in earning before tax income of the entity.

Finally, income tax is paid from earning before tax resulting in net profit. Management decides if they want to pay dividends or not. If they do pay dividends then preferred dividends are paid first and afterwards common stockholders' dividends are paid. The residue income also known as the retained earnings are reinvested in the firm.

b) Balance Sheet

A firm’s assets, liabilities and equity at a given time period are presented in the balance sheet. It shows the financial position at a point in time there are two sub accounts in the balance sheet. Assets account is the first one, which includes all the current and fixed assets of the company. Current assets include cash, market securities, and account receivable, inventories, prepaid

Expenses etc. Current assets also named as working capital provide short- term benefit for the entity. The other items which fall under assets are property, plant, equipment, goodwill, intangibles, long term investments, note receivable and other long term assets. Additionally, the other sub account includes all the liabilities and equity. Accounts payable, accrued expenses, notes payable, short term debt are the major components of current liabilities. While total long term debt, deferred income tax and minority interest added to the current liabilities sums up the total liabilities. Total liabilities summed up with total equity make total liabilities &shareholders’equity, which is always equal to the total assets.

c) Statement of Cash Flow

Statement of cash flow shows how cash flows in and out of the company. Cash generated by the operating, investing and financing activities are shown in the statement of cash flow. Furthermore, the statement of cash flow shows the overall net increase or decrease in cash of the firm. According to Patrick et al, cash flow helps the investors and creditors to access the ability of the firm to generate positive future cash flow, ability to meet the debt obligations and to shed light on the cash and non-cash aspect of the investing and financial transactions. Operating activities includes net income, depreciation, the increase or decrease in marketable securities, accounts receivable, inventory, prepaid expenses, account payable, and accrued expenses. The cash involved in purchase or sales of fixed assets falls under investing activities. Finally sales and retirement of notes, preferred and common stock, other corporate securities and bonds fall under financial activities in the statement of cash flow report.

d) Footnotes

The footnote gives a detailed description of reporting policies and the practices companies have adopted. It is impossible to present understandable financial statements without some explanations as all the information cannot be shown on the face of the statement. Although the quantitative information is shown in the major financial statements, the foot note provides the vital qualitative understanding of the financial report.

Footnotes have two kinds of information; initially the accounting method company chooses to formulate its financial statements. The second one explains the major financial results mentioned in the financial statements like income statement, balance sheet and statement of cash flow. (Charles and Patricia, 1983:79)

e) The statement of retained earnings

The statement of retained earnings shows the breakdown of retained earnings. Net income for the year is added to the beginning of year balance, and dividends are subtracted. This results in the end of year balance for retained earnings.

Remember that expenses, revenues and dividends impact retained earnings. Since net income equals revenue minus expenses, we need to include dividends when computing the end of period retaining earnings, plus net income and minus dividends.

V. Relationship among the Statement of Financial Position, Income Statement, Statement of Cash Flows and Statement of Retained Earnings.

As mentioned above, the balance sheet shows the financial position at a point in time. It therefore cannot contain information that is related to some period, such as sales or wages expense.

It is a common practice to include the beginning of a period balance sheet as well as an end period balance sheet in a financial report. This way the reader can form an opinion about how the firm's financial position has changed.

The cash flow statement and the income statement-statement both give information about the firm's performance over the period, albeit from different angles. The cash flow statement explains the change in cash. In other words, it explains how the beginning of period cash has turned into the end of period cash by differentiating between operating, investing and financial activities. The income statement shows a presentation of the sales, the main expenses and the resulting net income over the period. Net income is based on accounting principles which gives guidance/rules on when to recognize revenues and expenses, whereas cash from operating activities, obviously is cash based.

As dividends do not reduce net income, the income statement does not always explain the change in retained earnings over the year (Net income always equals the change in retained earnings when no dividend is paid out). The statement of retained earnings is included to show how equity has changed because of net income and possible dividend payments. It shows the beginning value of retained to which net income is added and dividends subtracted, resulting in end of year retained earnings.

VI. Techniques of Financial Statement Analysis

Financial statement users and analysts have developed a number of techniques to help them analyze and interpret financial statements. According to Diamond (2006) the most common of these includes horizontal, vertical and ratio analysis. All of

These techniques focus on relationships among items in the financial statement themselves.

In trying to understand the current financial position of a firm and its future outlook, it is important to consider changes from year to year as well as trends over several years. One way to accomplish this is to use comparative financial statements and the five-or-ten year summary of data found in the firm's annual report to spot important or emerging trends.

VII. Limitations of Financial Statement Analysis

In this survey, it will be pertinent to discuss the limitations of financial statement analysis and recommend ways of minimizing or overcoming them. Categorically, according to Diamond (2006), three problems involved in such analysis are:

i) That firms use different accounting principles and methods.

ii) That it is often difficult to define what industry and firm is really a part of and

iii) That accounting principles varies among countries

VIII. The Impact of Inflation of Financial Statement Analysis

During a period of inflation, financial statements which are prepared in terms of historical costs do not reflect fully the economic resources or the real income (in terms of purchasing power) of a business enterprise (Meigs and Meigs 2003).

Therefore, inflation affects financial statement analysis to a greater extent. However, there is an SEC requirement that large corporations disclose in footnotes the replacement cost of inventories, cost of goods sold, plant and equipment, and depreciation, ibid. Financial analysts should therefore attempt to evaluate the impact of inflation on the financial position and results on operations of the company being studied.

Moreover, according to Diamond (2006), analysts would raise such questions as: how much of the net income can be attributed to the increase in the general price level? Is depreciation expense understated in terms of current price levels? Are profits exaggerated because the replacement cost of inventories is higher than the cost of units charged to the cost of goods sold? Will the company be able to keep its "physical capital" intact by paying the higher prices necessary to replace plant assets as they wear out? Therefore, accounting information should be modified to cope with the impact of inflation.

Since inflation affects the financial statements, there is a need for a remedy to be done; this will be in the form of modifying the accounting. To Meigs and Meigs (1979:579), two approaches are generally in use. They are:

a) The adjustment of historical cost financial statements for changes in general purchasing power; and

b) Current value accounting, this approach envisions a series of traditional steps away from historical cost accounting, the first of which would be limited to requiring footnotes disclosures of the current values for inventories, cost of goods sold, plant and equipment, and depreciation. Its second step would involve preparing supplementary financial statements

Expressed in current values for most items, and a final step would call for a set of current value financial statements to become the primary financial statement of a company

2.2 CONCLUSION

This project has been very useful to us because we have learnt how to prepare comparative and common size statements.This has improved our knowledge on financial statements which is very useful in business and commerce every day.

The work which we have done in this project has helped us to understand the techniques, applications and usefulness of financial statements to understand the performance of a particular company or enterprise without much difficulty and also understand how to prepare them in future.

We came to know the following conclusions while preparing this project.

JUDGING THE EARNING CAPACITY

On the financial analysis, the earning capacity of the business concern may be computed. In addition to this, the future earning capacity of the concern may also be forecasted. All the external users of accounts, specially the investors and potential investors are interested in this.

JUDGING THE MANAGERIAL EFFICIENCY

The financial statement analysis helps to pinpoint the areas where the managers have shown better efficiency and the areas of inefficiency. For example, using financial ratios, it is possible to analyze the relative proportion of production, administrative and marketing expenses.

Any favorable or unfavorable variations can be identified and reasons thereof can be ascertained to pinpoint managerial efficiency and deficiency judging The Short-term & Long-term Efficiency of the Enterprise On the basis of

Financial analysis, long-term as well as short-term solvency of the concern may be judged.

Creditors or suppliers are interested to know the short-term solvency/liquidity of the concern i.e. ability to meet short-term liabilities. Debenture holders and lenders judge the ability of the company to pay the principal amount and interest on the basis of financial analysis.

2.3 METHODOLOGY

Research methodology is a way of explaining how a researcher intends to carry out their research. It's a logical, systematic plan to resolve a research problem. A methodology details a researcher's approach to the research to ensure reliable, valid results that address their aims and objectives. It encompasses what data they're going to collect and where from, as well as how it's being collected and analyzed.

A research methodology gives research legitimacy and provides scientifically sound findings. It also provides a detailed plan that helps to keep researchers on track, making the process smooth, effective and manageable. A researcher's methodology allows the reader to understand the approach and methods used to reach conclusions.

2.4 RESEARCH DESIGN

A research design is a broad plan that states objectives of a research project and provides the guidelines on what is to be done to realize those objectives. It is, in other words, a master plan for executing a research project.

The word „design" has various meanings. But, in relation to the subject concern, it is a pattern or an outline of a research project's workings. It is the statement of essential elements of a study that provides basic guidelines of conducting the project. It is the same as the blueprint of an architect's work.

The research design is a broad framework that describes how the entire research project is carried out. Basically, there can be three types of research designs – exploratory research design, descriptive research design, and experimental (or causal) research design. Use of particular research design depends upon the type of problem under study.

1. Exploratory Research Design:

This design is followed to discover ideas and insights to generate possible explanations. It helps in exploring the problem or situation. It is, particularly, emphasized to break a broad vague problem statement into smaller pieces or sub-problem statements that help form specific hypotheses. The exploratory research design is used to increase familiarity of the analyst with problems under investigation. This is particularly true when a researcher is new in an area, or when a problem is of different type.

2. Descriptive Research Design:

Descriptive research design is typically concerned with describing a problem and its solution. It is a more specific and purposive study. Before rigorous attempts are made for descriptive study, the well-defined problem must be on hand. Descriptive study rests on one or more hypotheses.

3. Causal or Experimental Research Design:

Causal research design deals with determining cause and effect relationships. It is typically in the form of an experiment. In causal research design, an attempt is made to measure impact of manipulation on independent variables (like price, products, advertising and marketing strategies in general) on dependent variables (like sales volume, profits, and brand loyalty). It has more practical value in resolving marketing problems. We can set and test hypotheses by conducting experiments.

CHAPTER 3

COMPANY PROFILE

3 COMPANY PROFILE

5.1 COMPANY PROFILE

LOCATION: Sy no: 173& 334 to 349,

Edira(v),Mahabubnagar(M),Mahabubnagar(Dist)

ESTABLISHED IN : 01 SEPTEMBER 2004

REGISTERED NO: 44053

WEEKLY HOLIDAY: Saturday&Sunday

WORKING SHIFT: 8:00 AM to 8:00PM

CHAIRMAN: Upendra Kumar Agarwal

M.D: Ritesh Kumar Agarwal

FINANCIAL INSTITUTION: State bank of India

OF THE COMPANY Industrial Development Bank of India

BANKERS OF THE ICICI Bank Ltd

COMPANY Axis Bank Ltd

Central Bank of India

AREA OF OPERATION: PillalamarriRoad,Mahabubnagar

(NATIONALLY) : INDIA

(LOCALLY): Telangana

AWARD: TRACEABILITY PERFORMANCE AWARD IN 2012

PRODUCTS: Rajvir Industries Ltd. is an integrated producer of cotton, melange, synthetics, Modal, dyed products, compact yarn, flame-retardant, supima, silk, wool, cashmere and angora blends.

The Company's spinning capacity is of 1, 11,840 spindles.

The Company boasts of having a massive collection that encompasses over 8,000

Melange/heather shades and a range that covers everything from 100%

Cotton/organic/ fair-trade, combed yarns, blended yarns (polyester, viscose, modal, spun silk and flame- retardant) mélange / heather yarns, modal yarns, synthetic yarns and cheese-dyed yarns.

5.2 HISTORY

A beginning of a mere 6000 spindles in 1962 to a 120,000-spindle facility now,

Rajvir Industries Limited has nurtured a single minded devotion at work: To exceed

the customer's expectation in terms of quality, choice of products and service.

This has been achieved through sophisticated manufacturing methods, a team

Of involved and dedicated personnel, well-coordinated operations and ruthless quality checks.The results: today it is hailed as one of the trend-setting cotton spinning firms in India that has left indelible impressions on the consumers mind across the world. With over a three and half million pounds of yarn manufactured every month, it's a collective passion to produce nothing but the best in the world and deliver the same in no less than a record time.

CHAPTER 4

DATA ANALYSIS AND

INTERPRETATIO

N

4 DATA ANALYSIS AND INTERPRETATION

Balance Sheet on at 31-03-2020

Particulars	no	As at 31-03-2020	As at 31-03-2019
ASSETS			
Non-current assets			
(a) Property, plant and equipment		3367000	12875000
(b) Capital work in progress		-	38000
(c) Intangible assets		-	-
(d) Financial assets:			
(i) Loans		422000	612000
(ii) Other financial assets		-	256000
(e) Deferred tax asset (net)		1157000	1343000
(f) Other non-current assets		51000	52000
		4999000	15178000
Current assets			

(a) Inventories	3888000	6101000
(b) Financial assets:		
(i) Loans	-	-
(ii) Trade receivables	506000	946000
(iii) Cash and cash equivalents	(30000)	79000
(iv) Bank balances other than (iii) above	57000	108000
(v) Other Financial assets	91000	2544000
(c) Current tax assets (net)	27000	31000
(d) Other current assets	458000	404000
	5000000	10216000
Assets Classified as held for sale and Discontinued Operations	11852000	
TOTAL ASSETS	21852000	25395000
EQUITY AND LIABILITIES		

Equity		
(a) Equity share capital	399000	399000
(b) Other equity	(2,469000)	37000
Liabilities	(2,070000)	436000
Non-current liabilities		
(a) Financial liabilities		
(i) Borrowings	8677000	1142000 0
(ii) Other financial liabilities	277000	460000
(b) Long term provisions	63000	63000
(c) Deferred tax liabilities (net)	-	-
(d) Other non-current liabilities	-	-

Current liabilities	9018000	1194400 0
(a) Financial liabilities		
(i) Borrowings	5860000	4869000
(ii) Trade payables	2927000	3924000
(iii) Other current financial liabilities	2719000	2035000
(b) Other current liabilities	119000 0	2177000
(c) Current tax liabilities	-	-
(d) Short-term Provisions	76000	6000
	12774000	13013000
Liabilities related to Assets held for sale and Discontinued Operations	2130000	-
TOTAL EQUITY AND LIABILITIES	21852000	25395000

COMPARATIVE INCOME STATEMENT

PARTICULARS	NOTE NO	AS AT 31-03-2020	AS AT 31-03-2019	INCREASING /DECREASING	INCREASING / DECREASING %
CONTINUING OPERATION REVENUE					
Revenue from operations		15314000	9365000	-894900	-38.84%
Other income		107000	57000	-50000	-46.72%
Total revenue		15421000	9422000	5999000	3.89%
EXPENSES					
Cost of material consumed		7534000	4125000	-3409000	-45.24%
Changes in inventories		233000	1348000	1115000	478.5%
Employee benefits expenses		1964000	1520000	-444000	-22.60%
Finance cost		1838000	1806000	1622200	882.5%
Depreciation		331000	322000	-9000	-2.7%
Other Expenses		3901000	2304000	-1597000	-40.93%
Total Expenses		15803000	11429000	-4374000	-27.67%
Profit before tax		(381000)	(2006000)	1625000	426.5%
Less: Tax Expenses					
Current tax					
Deferred Tax					

(Credit)/Expenses		(447000)	164000	-283000	-63.31%
Profit after tax from continuing operations		65000	(2171000)	2106000	32.4%
(Loss)from discontinuing operations before tax		(1525000)	(301000)	1224000	80.26%
Tax expenses of discontinued operations		(166000)	24000	-142000	-85.54%
(loss) for period from discontinuing operations		(1359000)	(326000)	-1033000	-76.01%
Other Comprehensive Income					
Items that will not be reclassified to profit or loss		(2000)	(13000)	11000	55.0%
Income Tax relating to items that will not be reclassified to profit or loss		6900	3000	-3900	-56.52%
Total Other comprehensive income		(10000)	(10000)		
Total Comprehensive Income for the period		(1294000)	(2507000)	1213000	93.74%
Earnings per equity share					

Earnings per share for continuing operations		1000	(54000)	53000	53.0%
Earning per share for discontinuing operations		(34000)	(8000)	-26000	-76.47%
Earning per share - basic and diluted		(32000)	(62000)	30000	93.75%
Nominal value of share		10000	10000	-	-

INTERPRATION

1. There is a 3.89% increase in revenue along with a 478.5% increase in inventories this is in spite of a fall in cash and bank balance. The industry might have adopted an aggressive sales policy by allowing Liberal terms of credit.
2. There is a 27.67% decrease in expenses of the industry.
3. The fixed assets of the industry compare favorably with the long-term funds of the industry.
4. The profitability of the industry appears to be impressive, as judged by 32.4% increasing profit after tax. However the comparative income statement of the industry must be examined in greater detail.

Balance Sheet 2017-2018

PARTICULARS	NOTE NO	As at 31-03-2018	As at 31-03-2017
ASSETS			
Non-current assets			
(a) Property, plant and equipment		3091000	3367000
(b) Capital work in progress			
(c) Intangible assets			
(d) Financial assets:			
(i) Loans		425000	422000
(ii) Other financial asset			
(e) Deferred tax assest (net)		1082000	1157000
(f) Other non-current assets		52000	51000
Current assets			
(a) Inventories		1908000	3888000
(b) Financial assets:			
(i) Loans			
(ii) Trade receivables		405000	506000
(iii) Cash and cash equivalents		81000	-30000
(iv) Bank balances other than (iii) above			
(v) Other Financial assets			57000
(c) Current tax assets (net)			

(d) Other current assets		379000	91000
TOTAL ASSETS		29000	27000
		432000	458000
		7884000	**9994000**
EQUITY AND LIABILITIES			
Equity			
(a) Equity share capital			
(b) Other equity			
		311000	399000
		(6486000)	(2469000)
		-6087000	**-2070000**
Liabilities			
Non-current liabilities			
(a) Financial liabilities			
(i) Borrowings			
(ii) Other financial liability			
(b) Long term provisions		7415000	8677000
(c) Deferred tax liabilities (net)		460000	277000
(d) Other non-current liabilities		76000	63000
		7952000	**9018000**

Current liabilities			
(a) Financial liabilities		583000	5860000
(i) Borrowings			
(ii) Trade payables			
a) total outstanding dues of micro and small enterprises			
b) total outstanding dues of creditors other than micro and small enterprises			
(iii) Other current financial liability		**2844000**	**2927000**
(b) Other current liabilities		4792000	2719000
(c) Current tax liabilities		1140000	1190000
(d) Short-term Provisions		90000	76000
TOTAL EQUITY AND LIABILITIES		**19392000**	**21852000**

COMPARATIVE INCOME STATEMENT

PARTICULARS	NOTE NO	AS AT 31-03-2018	AS AT 31-03-2017	INCREASING /DECREASING	INCREASING / DECREASING %
CONTINUING OPERATION REVENUE					
Revenue from operations		9365000	5787000	-3578000	-38.20%
Other income		57000	25000	-32000	-56.14%
Total revenue		9422000	5813000	-3609000	-38.30%
EXPENSES					
Cost of material consumed		4125000	2919000	1206000	-29.23%
Changes in inventories		1348000	1846000	498000	36.94%
Employee benefits expenses		1520000	1124000	-396000	-26.05%
Finance cost		1806000	1688000	-118000	-6.53%
Depreciation		322000	279000	-43000	-13.35%
Other Expenses		2304000	1592000	-712000	-30.90%
Total Expenses		11429000	9450000	-1979000	-17.31%
Profit before tax		(2006000)	(3637000)	1631000	81.30%
Less: Tax Expenses					
Current tax					
Deferred Tax		164000	7000	-157000	-95.73%

(Credit)/Expenses					
Profit after tax from continuing operations		(2171000)	(3707000)	1536000	70.75%
(Loss)from discontinuing operations before tax		(301000)	(299000)	-2000	-0.66%
Tax expenses of discontinued operations		24000	5000	-19000	-79.16%
(loss) for period from discontinuing operations		(326000)	(305000)	-21000	-6.44%
Other Comprehensive Income					
Items that will not be reclassified to profit or loss		(13000)	(4000)	-9000	-69.23%
Income Tax relating to items that will not be reclassified to profit or loss		3000	1000	-2000	-66.66%
Total Other comprehensive income		(10000)	(3000)	-7000	-70%
Total Comprehensive Income for the period		(2507000)	(4016000)	150900	60.19%
Earnings per equity share					

Earnings per share for continuing operations		(54000)	(92000)	38000	70.37%
Earning per share for discontinuing operations		(8000)	(7000)	-1000	-12.5%
Earnings per share - basic and diluted		(62000)	(100000)	38000	61.29%
Nominal value of share		10000	10000	-	-

INTERPRATION

1. There is a 38.30% decrease in revenue along with a 36.94% increase in inventories this is in spite of a raise in cash and bank balance. The industry might have adopted an aggressive sales policy by allowing Liberal terms of credit.
2. There is a 17.31% decrease in expenses of the industry.
3. The fixed assets of the industry compare favorably with the long-term funds of the industry.
4. The profitability of the industry appears to be impressive, as judged by 32.4% increasing profit after tax. However the comparative income statement of the industry must be examined in greater detail.

4.3 FINDINGS

At Rajvir, growth is not on the surface that is merely reflected in numbers in the balance sheet. In fact, it is the opposite .It is about deeper consolidation. Mindset restructuring and paving the foundations of sustainable growth .The company's spinning capacity is of 1, 11,840 spindles.

The Company boasts of having a massive collection that encompasses over 8000 melange/heather shades and a range that covers everything from 100% cotton /organic/fair-trade ,combed yarns , blended yarns (polyester ,viscose modal, spun silk and flame -retardant) melange/heather yarns, modal yarns, synthetic yarns and cheese-dyed yarns.

APPENDICES

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QUESTIONNAIRES

1.Did your company earn profit for the financial year or incurred loss? A)Yes company earned profit

B) No company incurred loss

Ans: A

2.What is the total remuneration paid to the directors of the company? A)6 lakhs B)3 lakhs c)7 lakhs .

Ans: A

3. Were there any complaints received about the company during the financial years?

A) Yes B) no

Ans: B

4. Was there any share transfer pending for more than 15 days ?

A) yes B) no

Ans: B

5.which product does the mill/company manufactures

A)cotton yarn B)plastic products C)cosmetics

D)Footwear

Ans:A

6.How many workers are employed in the mill

A)70 B)100 C)80 D)30

Ans: D

7. what is the total expenditure for the financial year ended

A)3045.11 lakhs B)9,450.78 lakhs

C) 8010.18laks D) 4210.43 lakhs

Ans:B

8. What is the total revenue earned from the financial year

A)2919.61 lakhs B)4155.11 lakhs

C) 5813.34 D) 3,177.49 lakhs

Ans:C

9. What is the profit before tax for the financial Year ended?

A)200 lakhs B)4400 lakhs C)5559 lakhs D) 2100 lakhs

Ans:A

10. What is the annual turnover of the financial year?

A) 5787.73 lakhs B) 3989.83 lakhs C) 6911.11 lakhs D) 4117.63 lakhs

Ans: A

11. Does the company have a risk management policy?

A)yes B)no

Ans:A

12. What is the year of establishment of mill?

A)1975 B)1980 C)1962 D)1990

Ans:C

13. **How many countries to which the company exports the products A)42**

B)30 C)50 D)20

Ans:A