www.ijbar.org
ISSN 2249-3352 (P) 2278-0505 (E)
Cosmos Impact Factor-5.86

COMPREHENSIVE ANALYSIS OF FINANCIAL PERFORMANCE METRICS: EVALUATING PROFITABILITY, LIQUIDITY, AND SOLVENCY INDICATORS WITH REFERENCE TO MADHUCON

[1] P. Harini, [2] Chandanam Shirisha
[1]Assistant Professor, [2]MBA Student
DEPARTMENT OF MBA
Sree Chaitanya College of Engineering, Karimnagar

ABSTRACT

A formal record of an entity's or a person's financial activity is a financial performance report. Although accountants and other English speakers use the phrase "financial statement," the most common name for a financial statement in British English is "account." This use is also prevalent in UK business law.

The financial performance of a company is the sum of all its pertinent financial data, organised and presented in an understandable way. Usually, there are four main components to financial performance reviews:

Performance discussions and analyses for major companies are notoriously lengthy and intricate affairs, sometimes accompanied by a mountain of notes on financial performance. Financial statements (balance sheet, income statement, and cash flow statement) may include notes that provide a more in-depth description of each item. An essential component of financial success is the notes to financial performance.

Goals of a company's financial performance

"The objective of financial performance is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions." A company's financial results should be clear, applicable, trustworthy, and comparative. A company's financial health is intimately connected to its reported assets, liabilities, and equity. A company's financial health is proportional to its reported revenue and expenditures.
Readers with "a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently" should be able to comprehend the financial performance. Users may use financial performance to many uses.

1. INTRODUCTION

In our present day economy, **"FINANCE"** is defined as the provision of money at the time when it is required. Every enterprise, whether big, medium of small, needs finance to carry on its operations and to achieve its targets.

Finance is so indispensable today that it is the lifeblood of an enterprise. Without adequate finance, no enterprise can possibly accomplish its objectives.

"Finance" is the life blood and nerve system of any business organization. Just as circulation of blood, is necessary in the human body to maintain life. Finance is necessary in the business org. for smooth running of the business.

Financial Performance involves managerial activities concerned with the procurement and utilization of funds for business purpose the finance function does with procurement of money taking in to consideration of today's as well as future need and its effective utilization. Since finance is required to purchase of machinery and raw materials, to pay salaries and wages also for day-to-day expenses.

Financial Performance entails planning for the future of a person or a business enterprise to ensure a positive cash flow. It includes the administration and maintenance of financial assets. Besides, Financial Performance covers the process of identifying and managing risks.

The primary concern of Financial Performance is the assessment rather than the techniques of financial quantification. A financial manager looks at the available data to judge the performance of enterprises. Managerial finance is an interdisciplinary approach that borrows from both managerial accounting and corporate finance.

Some experts refer to Financial Performance as the science of money management. The primary usage of this term is in the world of financing business activities. However, Financial Performance is important at all levels of human existence because every entity needs to look after its finances.

Financial Performance: Levels

Broadly speaking, the process of Financial Performance takes place at two levels. At the individual level, Financial Performance involves tailoring expenses according to the financial resources of an individual. Individuals with surplus cash or access to funding invest their money to make up for the impact of taxation and inflation. Else, they spend it on discretionary items. They need to be able to take the financial decisions that are intended to benefit them in the long run and help them achieve their financial goals.

From an organizational point of view, the process of Financial Performance is associated with financial planning and financial control. Financial planning seeks to quantify various financial resources available and plan the size and timing of expenditures. Financial control refers to monitoring cash flow. Inflow is the amount of money coming into a particular company, while outflow is a record of the expenditure being made by the company. Managing this movement of funds in relation to the budget is essential for a business.

At the corporate level, the main aim of the process of managing finances

Is to achieve the various goals a company sets at a given point of time. Businesses also seek to generate substantial amounts of profits, following a particular set of financial processes.

Financial managers aim to boost the levels of resources at their disposal. Besides, they control the functioning on money put in by external investors. Providing investors with sufficient amount of returns on their investments is one of the goals that every company tries to achieve. Efficient Financial Performance ensures that this becomes possible.

SCOPE OF THE STUDY

Analysis of financial statement can be undertaken by different persons and for different purposes, therefore, the scope of the AFS may be varying from one situation to another.

However, the following are some the techniques of the AFS:

Comparative financial statements.

a) Common-size financial statements.
b) Trend percentage analysis.
c) Statement of changes in financial position.
d) Cost-volume-profit relations, and
e) Ratio analysis and others.

The last technique i.e. The ratio analysis is the most common, comprehensive and powerful tool of the AFS. The importance of ratio analysis lies in the fact that it presents facts on a comparative basis. As such, this study focuses only on this (ratio) analysis.

NEED FOR STUDY

- Need of Financial Performance study to diagnose the information contain in financial statement. So as to judge the profitability and financial position of the firm.
- Financial analyst analyses the financial statements with various tools of analysis before commanding upon the financial health of the firm.
- Essential to bring out the history.
- Significance and meaning of the financial statements.

OBJECTIVES OF FINANCIAL STATEMENT ANALYSIS

The Financial Performance is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

1. To ensure regular and adequate supply of funds to the concern in **Madhucon Projects Limited**.
2. To ensure adequate returns to the shareholders this will depend upon the earning capacity, market price of the share, expectations of the shareholders in **Madhucon Projects Limited**.

3. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
4. To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
5. To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

6. Interpret financial reports Including income statements, Profits and Loss or P&L, cash flow statements and balance sheet statements.

7. Improve the allocation of working capital within business operations.
8. Review and fine tune financial budgeting, and revenue and cost forecasting.
9. Look at the funding options for business expansion, including both long and short term financing.
10. Review the financial health of the company or business unit using ratio analyses, such as the gearing ratio, profit per employee and weighted cost of capital.
11. Understand the various techniques using in project and asset valuations.
12. Apply critical financial decision making techniques to assess whether to proceed with an investment.
13. Understand valuations frameworks for businesses, portfolios and intangible assets

2. RESEARCH METHODOLOGY

RESEARCH DESIGN

This is a systematic way to solve the research problem and it is important component for the study without which researches may not be able to obtain the format. A research design is the arrangement of conditions for collection and analysis of data in a manager that aims to combine for collection and analysis of data relevance to the research purpose with economy in procedure.

MEANING OF RESEARCH DESIGN

The formidable problem that follows the task of defining the research problem is the preparation of design of the research project, popularly known as the research design, decision regarding what, where, when, how much, by what means concerning an inquiry of a research study constitute a research design. A research design is the arrangement of conditions for collection and analysis of data in a manager that aims to combine for collection and analysis of data relevance to the research purpose with economy in procedure.

SOURCES OF DATA

Data we collected based on two sources.

- Primary data.
- Secondary data.

Primary data

The Primary data are those information's, which are collected afresh and for the first time, and thus happen to be original in character.

Secondary Data:

The Secondary data are those which have already been collected by some other agency and which have already been processed. The sources of Secondary data are Annual Reports, browsing Internet, through magazines.

1. It includes data gathered from the annual reports of **Madhucon Projects Limited**.
2. Articles are collected from official website of **Madhucon Projects Limited**.

METHODOLOGY USED:

1. **TYPES OF FINANCIAL STATEMENTS ADOPTED:**

   Following two types of financial statements are adopted in analyzing the firm financial position

   a. BALANCE SHEET.
   b. Profit and Loss statements.

2. **TOOLS OF FINANCIAL STATEMENT ANALYSIS USED**

   The following financial analysis tools are used in order to interpret the financial position of the firm.

LIMITATIONS OF FINANCIAL STATEMENT:

1. ONLY INTERIM REPORTS:

Only interim statements don't give a final picture of the concern. The data given in these statements is only approximate. The actual position can only be determined when the business is sold or liquidated.

2. DON'T GIVE EXTRA POSITION:

The financial statements are expressed in monetary values, so they appear to give final and accurate position. The values of fixed assets in the balance sheet neither represent the value for which fixed assets can be sold nor the amount which will be required to replace these assets.

3. HISTORICAL COSTS:

The financial statements are prepared on the basis of historical costs or original costs. The value of assets decreases with the passage of time current price changes are not taken into account. The statements are not prepared keeping in view the present economic conditions. The balance sheet loses the significance of being an index of current economic realities.

4. ACT OF NON MONITORY FACTORS IGNORED:

There are certain factors which have a bearing on the financial position and operating results of the business but they don't become a part of these statements because they can't be measured in monetary terms. Such factors may include in the reputation of the management.

NO PRECISION:

The precision of financial statement data is not possible because the statements deal with matters which can't be precisely stated. The data are recorded by conventional procedures followed over the years. Various conventions, postulates, personal judgments etc.

FINANCIAL PERFORMANCE ANALYSIS

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis. The dictionary meaning of 'analysis' is to resolve or separate a thing in to its element or components parts for tracing their relation to the things as whole and to each other. The analysis of financial statement is a process of evaluating the relationship between the component parts of financial statement to obtain a better understanding of the firm's position and performance. This analysis can be undertaken by management of the firm or by parties outside the namely, owners,creditors,investors.

The analysis of financial statement represents three major steps:

- The first step involves the re-organization of the entire financial data contained the financial statements. Therefore the financial statements are broke down into individual components and re-grouped into few principle elements according to their resemblances and affinities. Thus the balance sheet and profit and loss accounts are completely re-casted and presented in the condensed form entirely different from their original shape.

- The second step is the establishment of significant relationships between the individual components of balance sheet and profit and loss account. This is done through the application tools of financial analysis like Ratio analysis, Trend analysis, Common size balance sheet and comparative Balance sheet.
- Finally, the result obtained by means of application of financial tools is evaluated.

- In brief financial analysis is the process of selection, relation and evaluation of financial statements. The tools of analysis are used for determining the investment value of the business, credit rating and for testing efficiency of operation.

Thus financial analysis helps to highlight the facts and relationships concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness of the company.

www.ijbar.org
ISSN 2249-3352 (P) 2278-0505 (E)
Cosmos Impact Factor-5.86

Financial statement analysis (or **financial analysis**) the process of understanding the risk and profitability of a firm (business, sub-business or project) through analysis of reported financial information, particularly annual and quarterly reports.

Financial statement analysis consists of 1) reformulating reported financial statements, 2) analysis and adjustments of measurement errors, and 3) financial ratio analysis on the basis of reformulated and adjusted financial statements. The two first steps are often dropped in practice, meaning that financial ratios are just calculated on the basis of the reported numbers, perhaps with some adjustments. Financial statement analysis is the foundation for evaluating and pricing credit risk and for doing fundamental company valuation.

1) Financial statement analysis typically starts with reformulating the reported financial information. In relation to the income statement, one common reformulation is to divide reported items into recurring or normal items and non-recurring or special items. In this way, earnings could be separated in to normal or core earnings and transitory earnings. The idea is that normal earnings are more permanent and hence more relevant for prediction and valuation. Normal earnings are also separated into net operational profit after taxes (NOPAT) and net financial costs. The balance sheet is grouped, for example, in net operating assets (NOA), net financial debt and equity.

2) Analysis and adjustment of measurement errors question the quality of the reported accounting numbers. The reported numbers can for example be a bad or noisy representation of invested capital, for example in terms of NOA, which means that the return on net operating assets (RNOA) will be a noisy measure of the underlying profitability (the internal rate of return, IRR). Expensing of R&D is an example when such investment expenditures are expected to yield future economic benefits, suggesting that R&D creates assets which should have been capitalized in the balance sheet. An example of an adjustment for measurement errors is when the analyst removes the R&D expenses from the income statement and put them in the balance sheet. The R&D expenditures are then replaced by amortization of the R&D capital in the balance sheet. Another example is to adjust the reported numbers when the analyst suspects earnings management.

3) Financial ratio analysis should be based on regrouped and adjusted financial statements. Two types of ratio analysis are performed: 3.1) Analysis of risk and 3.2) analysis of profitability:

3.1) Analysis of risk typically aims at detecting the underlying credit risk of the firm. Risk analysis consists of liquidity and solvency analysis. Liquidity analysis aims at analyzing whether the firm has enough liquidity to meet its obligations when they should be paid. A usual technique to analyze illiquidity risk is to focus on ratios such as the current ratio and interest coverage. Cash flow analysis is also useful. Solvency analysis aims at analyzing whether the firm is financed so that it is able to recover from a loss or a period of losses. A usual technique to analyze insolvency risk is to focus on ratios such as the equity in percentage of total capital and other ratios of capital structure. Based on the risk analysis the analyzed firm could be rated, i.e. given a grade on the riskiness, a process called synthetic rating.

www.ijbar.org
ISSN 2249-3352 (P) 2278-0505 (E)
Cosmos Impact Factor-5.86

3. FINDNGS

1. I found that every year the sales are increases in increased manner. It shows good sign for the organization. It fluctuates only one year due to competition and heavy expenditure in fixed assets.
2. The Net profit was increased every year. This was happened due to increasing of cost of goods sold every year
3. In the year 2022, they spend more money towards packing material sealing and distribution transportation and administration expenses. The shows results in reduction of operating profit in 2022.
4. On overall ever year cash & bank balance were increased fixed deposits receipts are decreased inventories on average are in good position.
5. In the year 2022 they minimized the exp .of stores maintenance. But other expensed like packing materials and transportation charges increased rapidly

SUGGESTIONS

- The company should provide notes to explain items not tallying with the profit and loss and balance sheet in the Annual report.

- Instead of disclosing the combined flows of debtors and loans advances as decrease/(increase) in trade and other receivables, their separate disclosure will be more meaningful.

- Globalization of economies and the requirement of shares from investors in capital market, diverse and demanding audience to the company, need a clear and in-depth in information about the company's financial position in Annual report.
- Comparison of basic and diluted EPS to be included in Annual report to predict the EPS sustainable in future.

4. CONCLUSION

Madhucon Projects Limited is in a solid financial position because to its prudent use of both loan and equity. Investments, loans, and advances were used efficiently according to the overall evaluation of the financial statements. Based on the rise in reserves and surplus, it seems that the firm is rather profitable.

The opinions stated in the audit report via the financial statements and the management discussions and analysis in the director's report are accurate and fair views in compliance with the requirements of the companies Acts and accounting standards.

The company's financial situation seems to be excellent overall.

BIBLIOGRAPHY

SL. No.	BOOKS:	AUTHOUR NAME

1.	Financial Performance	Kahan & JAIN
2.	Financial Performance	I.M.Pandey
3.	Management Accounting	R.P.Trivedi

NEWS-PAPERS & JOURNALS:

1. BUSINESS TODAY
2. THE ECONOMIC TIMES

WEBSITES & SEARCH ENGINES

1. www.madhucon.com
2. www.moneycontrol.com
3. www.googlefinance.com