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A STUDY ON THE ROLE OF FINANCIAL STATEMENT ANALYSIS IN ASSESSING BUSINESS SUSTAINABILITY WITH REFERENCE TO LANCO

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ABSTRACT

An essential method for assessing a company's soundness, performance, and longevity in operation is financial statement analysis, which entails poring over the three main financial statements (balance sheet, income statement, and cash flow statement). The purpose of this research is to use a variety of accounting ratios and trend analysis methods to examine the financial accounts of chosen businesses and draw conclusions on their liquidity, solvency, operational efficiency, profitability, and overall financial health.

In order to extract useful information from financial records, the study use methods such horizontal and vertical analysis, comparative statements, and ratio analysis (including current, return on equity, and debt-equity ratios). Decisions about investments, loans, and strategic planning may be better made with the use of these techniques by stakeholders including creditors, management, and investors.

Findings from the research highlight the importance of analysing financial statements when trying to predict a company's success. For more informed decisions, more openness, long-term company development, and more accurate performance reviews, accurate financial data interpretation is essential.

I. INTRODUCTION

Analysis of financial statement

Analysis refers to the process of critical examination of the financial information contained in the financial statement in order to understand and make decisions regarding the operations of the firm. The analysis is basically study of the relationship among various financial facts and figure as given in a set of financial statements. Complex figures as given in this statements are dissected\broken up into simple and variable elements and significant relationship are established between the elements of the same statements are different financial statements.

This process of dissection, establishing and identifying the financial weaknesses and strengths of the firm. It is indicative of two aspects of a firm i.e. The profitability and the financial position and it are what are known as the objectives of the analysis.

Types of Financial Analysis

on the basis of material used	on the basis of modus operandi

I. On the basis of material used:-According to material used,
Financial analysis can be of two types:

1. External analysis:-

This analysis is done by outsiders who do not have access to the detailed internal accounting records of the business firm. These outsiders include investors, potential investors, creditors, potential creditors, government agencies, credit agencies and the general public.

2. Internal Analysis:-

The analysis conducted by persons who have access to the internal accounting records of a business firm is known as internal analysis. Such an analysis can, therefore, be performed by executives and employees of the organization as well as government agencies which have statutory powers vested in them.

II. On the basis of modus operandi:-

According to the method of operation followed in the analysis, financial analysis can also be of

1. Horizontal analysis:-

Horizontal analysis refers to the comparison of financial data of a company for several years. The figures for this types of analysis are presented horizontally over a number of columns. The figures of the various year are compared with standard or base year. This type of analysis is also 'Dynamic analysis' as it is based on the data from year to year rather than on

2. Vertical Analysis:-

Vertical analysis refers to the study of relationship of the various items in the financial statements of one accounting period. In the types of analysis is the figures from financial statement of a year are compared with a base selected from the same year's statement. It is also known as 'Static analyses.

Procedure of Financial Statements Analysis

Broadly speaking there are three steps involved in the analysis of financial statements. There are:

i)Selection,

ii) Classification,

iii)Interpretation.

The first step involves selection of information (data). The second step involved is the methodical classification of the data and the third step includes drawing of internees and conclusions.

The following procedure is adopted for the analysis and

Interpretation of financial statements:

1) The analyst should acquaint himself with the principles and postulates of accounting.

2) The extent of analysis should be determined so that the sphere of work may be decided.

3) The financial data given in the statements should be re-organized and re-arranged.

4) A relationship is established among financial statements with the help of tools and techniques of analysis such as ratios, trends, common size, funds flow etc.,

5) The information is interpreted in a simple and understandable way. The significance and utility of financial data is explained for helping decision-taking.

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

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:

a) **omparative financial statements.**

b) **Common-size financial statements.**

c) Trend percentage analysis.
d) Statement of changes in financial position.
e) Cost-volume-profit relations, and
f) 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 management 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 management 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 **Lanco Infratech Ltd**.
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 **Lanco Infratech Ltd**.
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

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 **Lanco Infratech Ltd**.

III. LITERATURE REVIEW

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.

A **financial statement** (or **financial report**) is a formal record of the financial activities of a business, person, or other entity. In British English—including United Kingdom company law—a financial statement is often referred to as an **account**, although the term financial statement is also used, particularly by accountants.

For large corporations, these statements are often complex and may include an extensive set of **notes to the financial statements** and explanation of financial policies and **management discussion and analysis**. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered an integral part of the financial statements.

Purpose of financial statements by business entities

"The objective of financial statements 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." Financial statements should be understandable, relevant, reliable and comparable. Reported assets, liabilities, equity, income and expenses are directly related to an organization's financial position.

Government financial statements

The rules for the recording, measurement and presentation of government financial statements may be different from those required for business and even for non-profit organizations. They may use either of two accounting methods: accrual accounting, or cash accounting, or a combination of the two (OCBOA). A complete set of chart of accounts is also used that is substantially different from the chart of a profit-oriented business

Financial statements of not-for-profit organizations

The financial statements that not-for-profit organizations such as charitable organizations and large voluntary associations publish, tend to be simpler than those of for-profit corporations. Often they consist of just a balance sheet and a "statement of activities" (listing income and expenses) similar to the "Profit and Loss statement" of a for-profit. Charitable organizations in the United States are required to show their income and net assets (equity) in three categories: Unrestricted (available for general use), Temporarily Restricted (to be released after the donor's time or purpose restrictions have been met), and Permanently Restricted (to be held perpetually, e.g., in an Endowment).

Personal financial statements

Personal financial statements may be required from persons applying for a personal loan or financial aid. Typically, a personal financial statement consists of a single form for reporting personally held assets and liabilities (debts), or personal sources of income and expenses, or both. The form to be filled out is determined by the organization supplying the loan or aid.

Audit and legal implications

Although laws differ from country to country, an audit of the financial statements of a public company is usually required for investment, financing, and tax purposes. These are usually performed by independent accountants or auditing firms. Results of the audit are summarized in an audit report that either provide an unqualified opinion on the financial statements or qualifications as to its fairness and accuracy. The audit opinion on the financial statements is usually included in the annual report.

There has been much legal debate over who an auditor is liable to. Since audit reports tend to be addressed to the current shareholders, it is commonly thought that they owe a legal duty of care to them. But this may not be the case as determined by common law precedent. In Canada, auditors are liable only to investors using a prospectus to buy shares in the primary market. In the United Kingdom, they have been held liable to potential investors when the auditor was aware of the potential investor and how they would use the information in the financial statements. Nowadays auditors tend to include in their report liability restricting language, discouraging anyone other than the addressees of their report from relying on it. Liability is an important issue: in the UK, for example, auditors have unlimited liability.

Inclusion in annual reports

To entice new investors, most public companies assemble their financial statements on fine paper with pleasing graphics and photos in an annual report to shareholders, attempting to capture the excitement and culture of the organization in a "marketing brochure" of sorts. Usually the company's chief executive will write a letter to shareholders, describing management's performance and the company's financial highlights.

Moving to electronic financial statements

Financial statements have been created on paper for hundreds of years. The growth of the Web has seen more and more financial statements created in an electronic form which is exchangeable over the Web. Common forms of electronic financial statements are PDF and HTML. These types of electronic financial statements have their drawbacks in that it still takes a human to read the information in order to reuse the information contained in a financial statement.

Types

A balance sheet summarizes an organization or individual's assets, equity and liabilities at a specific point in time. We have two forms of balance sheet. They are the report form and the account form. Individuals and small businesses tend to have simple balance sheets. Larger businesses tend to have more complex balance sheets, and these are presented in the organization's annual report. Large businesses also may prepare balance sheets for segments of their businesses. A balance sheet is often presented alongside one for a different point in time (typically the previous year) for comparison.

Personal balance sheet

A personal balance sheet lists current assets such as cash in checking accounts and savings accounts, long-term assets such as common stock and real estate, current liabilities such as loan debt and mortgage debt due, or overdue, long-term liabilities such as mortgage and other loan debt. Securities and real estate values are listed at market value rather than at historical cost or cost basis. Personal net worth is the difference between an individual's total assets and total liabilities.

A small business bump that balance sheet lists current assets such as cash, accounts receivable, and inventory, fixed assets such as land, buildings, and equipment, intangible assets such as patents, and liabilities such as accounts payable, accrued expenses, and long-term debt. Contingent liabilities such as warranties are noted in the footnotes to the balance sheet. The small business's equity is the difference between total assets and total liabilities.

Public Business Entities balance sheet structure

Guidelines for balance sheets of public business entities are given by the International Accounting Standards Board and numerous country-specific organizations/companys.

Balance sheet account names and usage depend on the organization's country and the type of organization. Government organizations do not generally follow standards established for individuals or businesses.

If applicable to the business, summary values for the following items should be included in the balance sheet: Assets are all the things the business owns, this will include property, tools, cars, etc.

Assets

Current assets

1. Cash and cash equivalents
2. Accounts receivable
3. Inventories
4. Prepaid expenses for future services that will be used within a year

Non-current assets (Fixed assets)

1. Property, plant and equipment
2. Investment property, such as real estate held for investment purposes
3. Intangible assets
4. Financial assets (excluding investments accounted for using the equity method, accounts receivables, and cash and cash equivalents)
5. Investments accounted for using the equity method
6. Biological assets, which are living plants or animals. Bearer biological assets are plants or animals which bear agricultural produce for harvest, such as apple trees grown to produce apples and sheep raised to produce wool.

Liabilities

See Liability (accounting)

1. Accounts payable
2. Provisions for warranties or court decisions
3. Financial liabilities (excluding provisions and accounts payable), such as promissory notes and corporate bonds
4. Liabilities and assets for current tax
5. Deferred tax liabilities and deferred tax assets
6. Unearned revenue for services paid for by customers but not yet provided

Equity

The net assets shown by the balance sheet equals the third part of the balance sheet, which is known as the shareholders' equity. It comprises:

1. Issued capital and reserves attributable to equity holders of the parent company (controlling interest)
2. Non-controlling interest in equity

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 gross profit was decreased every year. This was happened due to increasing of cost of goods sold every year
3. In the year 2024, they spend more money towards packing material sealing and distribution transportation and administration expenses. The shows results in reduction of operating profit in 2024.
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 2024 they minimized the exp .of stores maintenance. But other expensed like packing materials and transportation charges increased rapidly

CONCLUSION

Lanco infratech limited has a healthy balance between debt and equity, which puts them in a solid financial situation. 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.

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 an 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.
- Comparability between periods. The company preparing the financial statements may have changed the accounts in which it stores financial information, so that results may differ from period to period. For example, an expense may appear in the cost of goods sold in one period, and in administrative expenses in another period.
- Comparability between companies. An analyst frequently compares the financial ratios of different companies in order to see how they match up against each other. However, each company may aggregate financial information differently, so that the results of their ratios are not really comparable. This can lead an analyst to draw incorrect conclusions about the results of a company in comparison to its competitors.

- Operational information. Financial analysis only reviews a company's financial information, not its operational information, so you cannot see a variety of key indicators of future performance, such as the size of the order backlog, or changes in warranty claims.

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