



FINANCIAL PERFORMANCE ANALYSIS

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Abstract

A welfare economist will be concerned with the equal distribution of gains and wealth besides efficient utilization. From the national viewpoint the various indicators of performance can be employment generation, research and development, health education and economic development etc. Moreover different parties viewpoint performance differently. Financial analysts often assess firm's production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. It is powerful applied tool to examine, to measure, to interpret and to weight critically and draw outputs. An appraisal is done by different specialist who examines the specific problems with their company. Appraisal can be divided into two parts internal and External.

1.1 INTRODUCTION:

The term performance cannot be put into a tight framework of definition. It is indistinct phenomenon and it can be interpreted and measured in different ways. Different users from their own point of views can evaluate from various angles and performance. A financial analyst will judge the performance from profitability and growth point of view. An economic planner will be concerned with the equal distribution of gains and wealth besides efficient utilization of resources. A welfare economist will be concerned with the equal distribution of gains and wealth besides efficient utilization. From the national viewpoint the various indicators of performance can be employment generation, research and development, health education and economic development etc. Moreover different parties viewpoint performance differently. The shareholders are interested in profitability where as their management is interested in the growth of the company. So, both of dimension viz. profitability and growth should be considered while analyzing performance of a company. Some researchers have used profitability and growth as measurement of performance.

1.2 FINANCIAL PERFORMANCE ANALYSIS:

In short, the firm itself as well as various interested groups such as managers, shareholders, creditors, tax authorities, and others seeks answers to the following important questions:

1. What is the financial position of the firm at a given point of time?

2. How is the Financial Performance of the firm over a given period of time?

These questions can be answered with the help of financial analysis of a firm. Financial analysis involves the use of financial statements. A financial statement is an organized collection of data according to logical and Conceptual Framework consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment of time as in the case of a Balance Sheet, or may reveal a series of activities over a given period of time, as in the case of an Income Statement.

Thus, the term 'financial statements' generally refers to two basic statements:

The **Balance Sheet** shows the financial position of the firm at a given point of time. It provides a snapshot and may be regarded as a static picture. "Balance sheet is a summary of a firm's financial position on a given date that shows Total assets = Total liabilities + Owner's equity."

The **income statement** referred to in India as the profit and loss statement reflects the performance of the firm over a period of time.

"Income statement is a summary of a firm's revenues and expenses over a specified period, ending with net income or loss for the period."

However, financial statements do not reveal all the information related to the financial operations of a firm, but they furnish some extremely useful information, which highlights two important factors profitability and financial soundness.

Thus analysis of financial statements is an important aid to financial performance analysis. Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business.

"The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance."

The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account.

The first task is to select the information relevant to the decision under consideration from the total information contained in the financial statements.

The second is to arrange the information in a way to highlight significant relationships. The final is interpretation and drawing of inferences and conclusions. In short, "financial performance analysis is the process of selection, relation, and evaluation."

1.3 AREAS OF FINANCIAL PERFORMANCE ANALYSIS:

Financial analysts often assess firm's production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. However in the present study financial health of GSRTC is measured from the following perspectives:

1. Working capital Analysis
2. Financial structure Analysis
3. Activity Analysis
4. Profitability Analysis.

1.4 CONCEPT OF APPRAISAL:

Appraisal is closely related to scrutiny of the working systems of company as whole. According to Sudha Nigam, “Appraisal is techniques to evaluate past current and projected performance of concern.”

It is powerful applied tool to examine, to measure, to interpret and to weight critically and draw outputs. An appraisal is done by different specialist who examines the specific problems with their company. Appraisal can be divided into two parts

- (I) Internal
- (II) External.

According to Pitt Francis “Internal appraisal of the company not only means making some of having adequate human, physical and financial resources but seeing that they are optimally employed.”

1.5 CONCEPT OF FINANCIAL PERFORMANCE APPRAISAL:

Simply, financial appraisal is a scientific evaluation of the profitability and financial strength of any business concern. In fact, financial analysis is the process of making an anatomical study of the financial and operational data contained in the profit and loss account and the balance sheet of a given concern and thereby satisfying the information needs of the internal and external users of such data. On the other hand, financial appraisal is the process of scientifically making a proper and comparative evaluation of the profitability and financial health of the given concern on the basis of summarized and analyzed data, i.e., the output of financial analysis.

Thus, it follows from the above that the analysis of financial statements is a preliminary step towards the financial evaluation of the results drawn by the analysts or management accountants. Obviously, the appraisal of such results is made of the management for decision-making process.

Plainly, the analysis and interpretation of financial statements is an attempt to determine the meaning and significance of the financial statement data. so that forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities both current and long-term and profitability of a sound dividend policy.

Moreover, a study of the major individual items of a statement in relation’ to some other items of other statement will measure the activity and the profitability of the enterprise. Since both the major financial statements are interrelated, the exclusive analysis of either of them would not lead to any purposive exercise.

The main purpose of financial analysis is to make available to creditors, stockholders and the general public adequate information about and evaluation of a corporation's financial conditions of special interest to banks and other traders of

funds to corporations are the various ratios that enable creditors and investors to appraise the progress of a company. These ratios help in comparing current accomplishments and financial prospects of a business corporation with those of its past as well as with those of similar corporations.

1.6 OBJECTIVE OF FINANCIAL PERFORMANCE APPRAISAL:

Performance appraisal involves a broad area of coverage. The perspective throughout is on the effective management of company resources.

Performance appraisal can be done through a careful and critical analysis of the financial statement of an enterprise. Usually the financial statement of a business concern comprises two statements: balance sheet or position statement and profit and loss account or income statement. However, in big concerns two more statements are prepared. They are profit and loss appropriation account and fund flow statement. The overall performance of a business cannot be judged without a systemic analysis and interpretation of its financial statements. The advantages of such an analysis are as follows.

Objectives of the performance appraisal

- (i) To find out the financial stability of a business concern
- (ii) To assess its earning capacity
- (iii) To estimate and evaluate its stock and fixed assets.
- (iv) To assess its capacity and ability to repay short and long term loans
- (v) To estimate and examine the possibilities of its future growth
- (vi) To estimate the administrative efficiency of its management

Performance appraisal is a close and a critical study of various measures observed in the operation of Business Organization. The concept of human body is similar to the concept and case of business organization. Human body requires medical checkup and examination for maintaining fitness of bodies, similarly the performance of a business organization has got to be assessed periodically.

One must define the view points to be taken, the objectives of the analysis and possible Standard Comparison". Business Organization have the "Balance Sheet" and the "Profit and Loss Account" by the statements of change in financial position value added statements are also prepared for annual reports.

However, no single attempt can give firm results of appraising the performance of business organization. Business conditions differ according to location, type of facilities, products and services, plant capacity, capital structure, accounting policies, caliber of management and levels of efficiency. Such conditions of business organizations have become more complicated in the event of multi-product and multi business organizations. All these differences are part and parcel at the time of appraising the performance of a business organization.

1.7 CONCLUSION:

Performance is refers to presentation with quality and result achieved by the management of company and Financial Efficiency is a measure of the organization's ability to translate its financial resources into mission related activities. So, the

financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account. Company also calculated different type of profit and last Measurement of profitability is the overall measure of performance profits known, as bottom lines are also important for financial institutions. Analyzing and interpreting various types of profitability ratios can obtain creditor performance of portability.

1.8 REFERENCE:

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