

Balance Sheet Analysis

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ABSTRACT

This project focuses on Balance Sheet Analysis, a fundamental aspect of financial analysis that helps stakeholders understand a company's financial position at a given point in time. The primary objective is to evaluate the strength, stability, and structure of a company's assets, liabilities, and equity through detailed examination of its balance sheet. The study involves analyzing key components such as current assets, fixed assets, current liabilities, long-term liabilities, and shareholder's equity.

By using vertical and horizontal analysis techniques, this project identifies trends and structural changes over a five-year period. Financial ratios such as the current ratio, debt-equity ratio, and asset turnover ratio are also used to assess liquidity, solvency, and operational efficiency. Through a case study approach using data from a selected company, the analysis reveals patterns in capital allocation, funding sources, and financial risk.

The study concludes that regular balance sheet analysis enables better decision-making for investors, management, and creditors. It provides early warnings of financial distress and helps evaluate the company's long-term sustainability and investment potential.

KEYWORDS: Balance Sheet, Financial Position, Assets, Liabilities, Equity, Current Ratio, Debt-Equity Ratio, Financial Statement Analysis, Liquidity, Solvency

1. INTRODUCTION

Balance sheet analysis is the process of evaluating a company's financial position by examining its assets, liabilities, and equity. The balance sheet provides a snapshot of a company's financial health at a specific point in time, helping stakeholders assess liquidity, solvency, and overall stability. By analyzing key financial ratios such as the current ratio, debt-to-equity ratio, and return on equity, businesses and investors can make informed decisions regarding financial performance and risk management.

A thorough balance sheet analysis helps in understanding how efficiently a company utilizes its resources and manages its financial obligations. It also assists in identifying trends, comparing financial performance over time, and benchmarking against industry standards. Effective analysis of the balance sheet enables businesses to strategize for growth, optimize capital structure, and ensure long-term financial sustainability.

2. RESEARCH METHODOLOGY

The study is based on secondary data, collected from the following sources:

- Annual reports and audited balance sheets of Nirmala TVS Motors.
- Published financial statements and investor presentations.

- Books, journals, and research papers related to financial statement analysis.
- Industry reports and regulatory filings relevant to the company's financial performance.

The research follows a quantitative approach, using ratio analysis, trend analysis, and comparative financial analysis to interpret the balance sheet data.

3. DATA ANALYSIS

What is the Balance Sheet Analysis?

Balance sheet analysis is a complete analysis of items on the balance sheet at the various intervals of time like quarterly, annually and is used by shareholders, investors and institutions to understand the company's detailed financial position. The following Balance Sheet Analysis provides an outline of the most common used by investors and financial analysts to analyze a company. It is impossible to provide a complete set of analysis that addresses every variation in every situation since there are thousands of variables.

In this article, we have divided our analysis into two parts –

- #1 - Analysis of Assets on the Balance Sheet
- #2 - Analysis of Liabilities on the Balance Sheet

#1 – How to do Analysis of Assets in the Balance Sheet?

Assets include fixed assets or Non-current assets and current assets.

A. Non-Current Asset

Non-current assets include the items of fixed assets like Property Plant & Equipment (PPE). The analyses of fixed assets involve not only the calculation of the assets' earning potential and its use but also the calculation of its useful life. The efficiency of fixed assets can be analyzed by calculating the fixed asset turnover ratio.

Fixed Assets Turnover Ratio

This ratio is of more significance to the manufacturing industry as compared to the other industries as there is a substantial purchase of property, plant & equipment in the manufacturing concern to get the required output. The formula of Fixed Assets Turnover Ratio :-

Fixed Assets Turnover Ratio = Net sales/Average Fixed Assets

Where,

Net sales are sales less returns and discounts

And average fixed assets = (opening fixed assets + closing fixed assets) / 2

For example, Tricot Inc. reported its sales for the financial year 2018-19 as \$400,000 and out of these sales returned were \$4,000. Also, it reported its total property, plant, and equipment (PPE) as on 31st March 2019 as \$200,000. The balance of PPE as on 1st April 2018 was \$160,000.

Now net sales = \$400,000 - \$40,000 = \$360,000

Average fixed assets = $(\$160,000 + \$200,000)/2 = \$180,000$

So, Fixed Asset Turnover Ratio will be :-

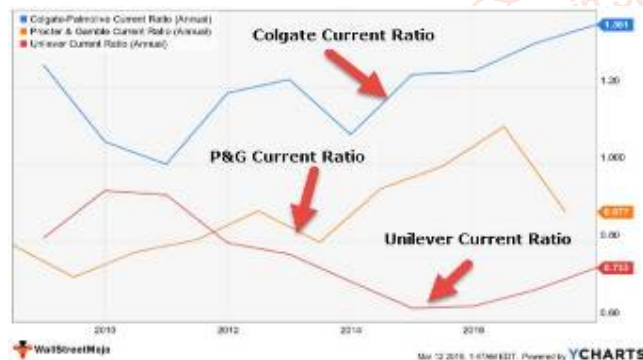
B5	$f_x = B3/B4$
	B C
Fixed Assets Turnover Ratio = Net sales/Average Fixed Assets	
3	Net Sales 360000
4	Average Fixed Assets 1,80,000
5	Fixed asset turnover ratio 2
6	

This ratio reflects how efficiently the management of the company is using its substantial fixed assets in generating the revenue of the firm. Higher the ratio, higher is the efficiency of the fixed assets.

B. Current Assets

Current assets are such assets which are likely to be converted into cash within a year. The current assets include cash, account receivable and inventories.

The ratios which help in the analysis of current assets are **Current Ratio**



It is a liquidity ratio which measures the ability of the company to pay off its short term debts.

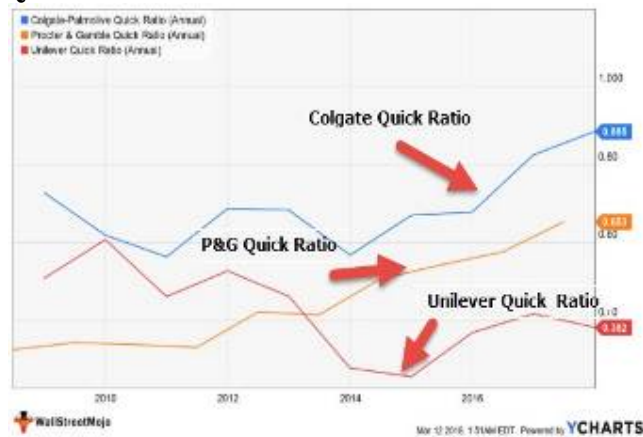
The formula for the current ratio is:

Current Ratio = Current Assets/Current Liabilities

Where Current assets = Cash & Cash equivalents + Inventories + Accounts receivable + other assets that can be converted into cash within a year.

Current Liabilities = Accounts payable + short term debt+ current portion of long term debt

Quick Ratio



It is a liquidity ratio which measures the short term liquidity position of the company by calculating the ability of the company to pay off its current liabilities with the use of its most liquid assets.

The formula of Quick Ratio

Quick Ratio = Quick Assets/ Current Liabilities

Where, quick assets = Cash & cash equivalents + Accounts receivable + other short term assets

Current liabilities = Accounts payable + short term debt + current portion of long term debt

Example: Microsoft Inc. is a manufacturing concern which reported the following items in the balance sheet:

	A	B	C
1	Particulars	Amount	
2	Cash & Bank	\$10,000	
3	Inventories	\$6,000	
4	Accounts Receivable	\$11,000	
5	Prepaid Expenses	\$3,000	
6	Accounts Payable	\$8,000	
7	Short term debt	\$7,000	
8			

Now the Total current assets = $\$10,000 + \$6,000 + \$11,000 + \$3,000 = \$30,000$

Quick assets = $\$10,000 + \$11,000 = \$21,000$

Total current liabilities = $\$8,000 + \$7,000 = \$15,000$

Therefore, current ratio = $\$30,000/\$15,000 = 2:1$

So, Quick Ratio will be :-

B14	$f_x = B11/B12$
	B C
Quick Ratio = Quick Assets/ Current Liabilities	
10	Total current assets \$30,000
11	Quick assets \$21,000
12	Total current liabilities \$15,000
13	current ratio 2
14	Quick Ratio 1.4
15	

Quick ratio = $\$21,000/\$15,000 = 1.4:1$

C. Cash

Investors are more attracted towards the company who is having plenty of cash reported on their balance sheet as the cash offers security to the investors because it can be used in the tough times. Increasing cash year to year is a good sign but diminishing cash can be considered as a sign of trouble. But if plenty of cash is retained for many years then investors should see why the management is not putting it into use. The reasons for maintaining huge amount as cash includes management’s lack of interest in the investment opportunities or maybe they are short-sighted so they do not know how to utilize the cash. Even the cash flow analysis is done by the company to determine its source of cash generation and its application.

D. Inventories



Inventories are the finished goods accumulated by the company for selling them to its customers. The investor will see how much money is tied up by the company in its inventory. To analyze the inventory, a company calculates its inventory turnover ratio which is calculated as below:
 Inventory Turnover Ratio = Cost of goods sold / Average inventory

Where,

Cost of goods sold = Opening stock + purchases - Closing stock

Average inventory = (Opening inventory + Closing inventory) / 2

This ratio calculates how fast the inventory is converted into sales. Higher inventory ratio shows that the goods are sold quickly by the company and vice versa.

4. CONCLUSION

Financial analysis determines a company's health and stability, providing an understanding of how the company conducts its business. But it is important to know that financial statement analysis has its limitations as well. Different accounting methods adopted by different firms' changes the visible health and profit levels for either better or worse. Different analysts may get different results from the same information. Hence, we must conclude that financial statement analysis is only one of the tools (although a major one) while taking an investment decision.

5. REFERENCES

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