Bank (15202+760)	15,962		
	31,164		31,164
1.1.2007 Balance b/d	31,164		
Bank (15202+1558)	16,760	31.12.2007 Balance c/d	47,924
	47,924		47,924
1.1.2008 Balance b/d	47,924		
Bank (15202 + 2396)	17,598	31.12.2008 Balance c/d	65,522
	65,522		65,522
1.1.2009 Balance b/d	65,522	31.12.2009 Balance c/d	83,100
Bank	17,578		
	83,100		83,100
1.1.2010 Balance b/d	83,100		

FINANCIAL STATEMENTS ANALYSIS AND INTERPRETATION

RATIO ANALYSIS

A ratio is one number expressed in terms of another number to show the relationship between the numbers. For example the relationship between 4 and 6 is 24/6 or 4:1 indicating that the former gure is four times as greater as the letter gure/ a variation is to use a base of 100. This is called percentage. Using the gure at 24 and 6, the percentage become 24/6 × 100 = 400%.

Financial statements (trading profit and loss A/C and balance sheet) are produced not just for their own sake, but for the use to which they can be put by the various parties interested in different aspects of these statements.

Example

1. The DIRECTORATE – interested in overall figure which show whether the company is profitable and whether it is on a sound financial foo ng.
2. In a manufacturing business, foremen may be concerned with me taken to complete a job or material usage.
3. Department and general managers are concerned about measurements rela ng to ma ers falling within their individual responsibili es.
4. Shareholders (actual and prospec vely are interested in their earnings (current & future) out of which dividend can be paid, the security of dividend (dividend cover) return on their investment (yield) etc.
5. External interested par es include loan creditors, for example debenture holders who are concerned that the company is solvent and there is adequate cover for their interest trade creditors (actual and prospec ve) who want to be assured that the company is both solvent and liquid, that is it has adequate cash or cash conver ble resources to metal current liabili es as they fall due to financial statement analysis consists of applying any tools and techniques to financial statement (other relevant data to obtain useful informa on). This informa on is shown as significant rela onship between data and trends in those data assessing the company, past performance and current financial posi on.

The information shows the results or consequences of prior management decisions. In addition, the information is used to make predictions that many users of nancial statements.

4. **Total assets turn over / sales to total assets ratio**

This ratio measures the ef ciency with which a company uses its assets to generate sales.

That is it indicates how much does a shilling of an asset generate in terms of sales value. The larger the total asset turn over the larger will be the income on each shilling invested in the assets of the business.

It is given by:-

$$\text{Total assets turn over} = \frac{Net\ sales}{Average\ total\ assets}$$

5. **Sales to capital employed ratio**

It indicates the ef ciency of utilization of capital employed in generating revenue.

It is given by:-

$$\text{Sales to capital employed} = \frac{Net\ sales}{Capital\ employed}$$

D. CAPITAL STRUCTURE AND GEARING MEASURES

Under this category the following ratios can be looked as equity or longer solvency ratios.

Show the relationship of debt and equity nancing in a company. It measure the riskiness of business.

1. Equity or stock holders equity ratio

It indicates the proportion of total assets, that is provided by stock holders (owners) on any given date.

The formula for the equity ratio is

$$\text{Equity ratio} = \frac{stockholders\ equity}{Total\ assets}$$

2. **Stock holders' equity to debt ratio.**

This indicates the measure of the relative proportion of stock holders and creditors.

It is given by:-

$$\text{Stock holders' equity to debt ratio} = \frac{stockholders\ equity}{Total\ debt}$$

3. **Long term debt to share holders funds**

It indicates the extent of cover for xed liabilities (loans, debentures).

It is given by:-

$$= \frac{fixed\ external\ liabilities\ or\ long\ term\ debts}{Ordinary\ shareholder\ fund}$$

4. **Gearing**