

# FINANCIAL STATEMENT ANALYSIS

## Lecture 8

### COMMON-SIZE FINANCIAL STATEMENTS ANALYSIS

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NB

This is a continuation of lecture 7.

#### Example one

The statement of financial position below belongs to MAPS International. You have been contracted by the manager to carry out common size analysis in order to evaluate the performance of the business in terms of the resources held in key areas such as assets, liabilities and equity.

#### MAPS International Statements of Financial Position

	(\$) 2020	(\$) 2019
Current assets		
Cash	1,200	900
Accounts receivable	4,800	3,600
Inventory	<u>3,600</u>	<u>2,700</u>
Total current assets	9,600	7,200
Total fixed assets	<u>6,200</u>	<u>5,500</u>
Total Assets	<u>15,800</u>	<u>12,700</u>
Current liabilities		
Accounts payable	2,400	1,800
Accrued expenses	480	360
short-term debt	<u>800</u>	<u>600</u>
Total current liabilities	3,680	2,760
Long-term debt	<u>9,020</u>	<u>7,740</u>
Total liabilities	12,700	10,500
shareholders' equity	<u>3,100</u>	<u>2,200</u>



	(\$)	(\$)	(%)	(%)
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current assets				
Cash	1,200	900	7.6%	7.1%
Accounts receivable	4,800	3,600	30.4%	28.3%
Inventory	<u>3,600</u>	<u>2,700</u>	<u>22.8%</u>	<u>21.3%</u>
Total current assets	9,600	7,200	60.8%	56.7%
Total fixed assets	<u>6,200</u>	<u>5,500</u>	<u>39.2%</u>	<u>43.3%</u>
Total Assets	<u>15,800</u>	<u>12,700</u>	<u>100.0%</u>	<u>100.0%</u>
Current liabilities				
Accounts payable	2,400	1,800	15.2%	14.2%
Accrued expenses	480	360	3.0%	2.8%
short-term debt	<u>800</u>	<u>600</u>	<u>5.1%</u>	<u>4.7%</u>
Total current liabilities	3,680	2,760	23.3%	21.7%
Long-term debt	<u>9,020</u>	<u>7,740</u>	<u>57.1%</u>	<u>60.9%</u>
Total liabilities	12,700	10,500	80.4%	82.7%
shareholders' equity	<u>3,100</u>	<u>2,200</u>	<u>19.6%</u>	<u>17.3%</u>
Total liabilities and equity	<u>15,800</u>	<u>12,700</u>	<u>100.0%</u>	<u>100.0%</u>

The allocation of resources to both fixed and current assets seems to be well distributed as there is no over allocation of resources to one category of assets.

The bulk of financing of the company comes from debt, increasing the risk of financing the company. However there is a slight reduction in the level of debt.

### Example two

The financial statements below belong to NEEMA Holdings Ltd for the year ended 31<sup>st</sup> December 2017;

#### *Income Statement*

	(000)
Revenue	70,134
Cost of Goods Sold	<u>44,221</u>

Gross Profit	25,913
SG&A Expense	<u>13,531</u>
Operating Income	12,382
Interest Expense	2,862
Provision for Taxes	<u>3,766</u>
Net Income	<u>5,754</u>

***Balance sheet***

**Assets**

(000)

Property, Plant, & Equipment	<u>2,442</u>
Cash & Marketable Securities	6,029
Accounts Receivables	14,378
Inventory	<u>17,136</u>
Total Current Assets	<u>37,543</u>
Total Assets	<u>39,985</u>

**Liabilities**

Current Liabilities	14,251
Long-Term Debt	<u>12,624</u>
Total Liabilities	26,875

**Capital**

shareholders' Equity	<u>13,110</u>
Total Liabilities & Equity	<u>39,985</u>

Required

Prepare common size financial statements whereby;

1. Income statement items should be expressed as a percentage of total revenue
2. Balance sheet items should be expressed as a percentage of total assets
3. Comment on the performance of the company

**Example three**

The financial statements of China-East Africa Ltd, a company registered in Kenya, for the year ended 31<sup>st</sup> July 2018.

**China-East Africa Ltd**  
**Income statement**  
**For the year ended 31<sup>st</sup> July 2020**

Sales		316,810
Opening stock	25,689	
Purchases	<u>201,698</u>	
GAFS	227,387	
Closing stock	<u>(29,142)</u>	
COS		<u>(198,245)</u>
Gross profit		118,565
Wages	54,788	
Rent	4,000	
Electricity	1,549	
Bad debts	825	
General expenses	32,168	
Depreciation machinery	<u>5,500</u>	<u>(98,830)</u>
Net profit		19,735
P&L bal b/f		<u>34,280</u>
		54,015
Proposed dividends		<u>(10,000)</u>
Retained earnings		<u>44,015</u>

**China-East Africa Ltd**  
**Statement of financial position**  
**As at 31<sup>st</sup> July 2020**

	Cost	Dep	NBV
Premises	65,000	-	65,000
Machinery	55,000	21,300	<u>33,700</u>

			98,700
Current assets			
Stock		29,142	
Debtors	21,784		
Provision	<u>938</u>	20,846	
Prepayments		300	
Bank		<u>23,101</u>	
		73,389	
Current liabilities			
Proposed dividends	10,000		
Creditors	17,493		
Accrued expenses	<u>581</u>	<u>(28,074)</u>	
Net assets			<u>45,315</u>
			<u>144,015</u>
Financed by			
Capital			100,000
Net profit			44,015
			<u>144,015</u>

#### Required

Prepare common size financial statements whereby;

- Income statement items should be expressed as a percentage of total revenue
- Balance sheet items should be expressed as a percentage of total assets
- Comment on the performance of the company

#### Example four

The financial statements of three companies in the same industry are given below;

#### Balance sheets

	X ltd	Y ltd	Z ltd
	(000)	(000)	(000)

Cash	30	20	5
Accounts receivables	200	260	290
Inventory	400	480	600
Net fixed assets	<u>800</u>	<u>800</u>	<u>800</u>
	<u>1,430</u>	<u>1,560</u>	<u>1,695</u>
Accounts payables	230	300	380
Accruals	200	210	225
short term loans	100	100	140
Long term loans	300	300	300
Common stock	100	100	100
Retained earnings	<u>500</u>	<u>550</u>	<u>550</u>
	<u>1,430</u>	<u>1,560</u>	<u>1,695</u>

#### Income statement extracts

	X ltd	Y ltd	Z ltd
	(000)	(000)	(000)
Sales	4,000	4,300	3,800
Cost of goods sold	3,200	3,600	3,300
Net profit	300	200	100

Required

Prepare common size financial statements whereby;

1. Income statement items should be expressed as a percentage of total revenue
2. Balance sheet items should be expressed as a percentage of total assets
3. Compare the performance of the companies

#### References

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