A Study on Financial Statement of Matrix Engineering Company through Comparative Analysis

Bindu A P

B. Com, (PES3UG21BC024), Department of Commerce, PES University
DOI: https://doi.org/10.55248/gengpi.5.0524.1223

ABSTRACT:
This study researches into the intricate interplay of financial indicators, focusing on the gradual escalation of assets and liabilities depicted in balance sheets alongside the oscillations in net profit derived from profit and loss accounts. Through meticulous comparative analysis, we scrutinize the implications of these fluctuations on organizational performance and fiscal health. Our investigation elucidates the nuanced relationship between asset and liability management, shedding light on the strategic decisions underpinning their trajectory. Additionally, we unravel the multifaceted factors influencing variations in net profit, ranging from operational efficiencies to market dynamics and strategic investments. By synthesizing empirical data and theoretical frameworks, this research offers valuable insights for stakeholders navigating the complex terrain of financial management. Furthermore, it underscores the importance of adopting a holistic approach to financial analysis, considering the synergistic effects of diverse elements within the financial ecosystem. Ultimately, this study contributes to a deeper understanding of financial statement dynamics, empowering decision-makers to formulate informed strategies and optimize organizational performance in a dynamic economic landscape.

Keywords: Comparative Analysis, Income Statement, Balance Sheet.

INTRODUCTION:

COMPARATIVE ANALYSIS:

Comparative analyses are important if you want to understand a problem better or find answers to important questions. The main goals businesses want to reach through comparative analysis. It is a part of the diagnostic phase of business analytics. It can answer many of the most important questions a company may have and help you figure out how to fix problems at the company’s core to improve performance and even make more money.

It encourages a deep understanding of the opportunities that apply to specific processes, departments, or business units. This analysis also ensures addressing the real reasons for performance gaps. It is used a lot because it helps people understand the challenges an organization has faced in the past and the ones it faces now. This method gives objective, fact-based information about performance and ways to improve it.

A comparative analysis is a method of studying and evaluating two or more entities to identify similarities, differences, strengths, weaknesses, or other relevant factors. It involves examining various aspects, characteristics, or variables of the entities being compared in order to gain insights and make informed judgments. The purpose of a comparative analysis can vary depending on the context.

The goal of comparative analysis is to search for similarity and variance among units of analysis. Comparative research commonly involves the description and explanation of similarities and differences of conditions or outcomes among large-scale social units, usually regions, nations, societies, and cultures.

It can be used to compare companies, products, services, financial performance, market trends, customer satisfaction, competitive advantages, or any other relevant factors. The goal is to provide a comprehensive understanding of the similarities and differences between the entities being analysed. By conducting a comparative analysis, individuals or organizations can gain valuable insights to make informed decisions, improve performance, identify competitive advantages, or understand market dynamics.

ADVANTAGES OF COMPARATIVE FINANCIAL STATEMENT:

The following advantages may be advocated:

➢ Comparison:
The comparative statements show the figures of various firms or number of years side by side i.e. both for inter-firm comparison and intra-firm comparison.

➢ Horizontal Analysis:

The variables are arranged horizontally for the purpose of analysis and interpretations of data taken from financial statements for assessing profitability, overall efficiency and financial position of a firm.

➢ Trend Analysis:

The comparative financial statement helps to ascertain the ‘trend’ relating to sales, cost of goods sold, operating expenses etc. so that a proper comparison can easily be made which helps the analyst to understand the overall performance of a firm.

➢ Trend and Directions:

The comparative financial statement provides necessary information for comparison of trends in related items e.g. the analyst can compare the trend of sales with the trend of accounts receivable which gives very useful information. A 20% increase in accounts receivable and an increase of sales by only 10% warrants investigation into the reasons for this difference in the rate of increase.

➢ Evaluation of:

The comparative financial statement helps the analyst to compare Performance the performance of one firm with that of other similar firm in the industry and also compare the performance of the competitors in the line. This comparison helps to find out the weakness or strength of a firm and to take adequate steps.

➢ Measuring Financial:

Comparative financial statements help to measure important Distress financial ratios which are used for predicting financial distress and predicting corporate failure with the help of Multivariate Model.

---

DISADVANTAGES OF COMPARATIVE FINANCIAL STATEMENT:

Comparative financial statements are not even free from snags.

Some of them are:

- Inter-firm Comparison:
  
  Inter firm comparison will only be effective if both the firms follow the same accounting principles, method of valuations of stocks, assets etc. i.e. all the accounting concepts and conventions, which in real world situation, are not identically followed by both the firms e.g. Firm A follows the FIFO method of valuing stock whereas Firm B follows LIFO method for the same.

- Inflationary Effect:
  
  Comparative financial statements do not recognise the change in prices level and, as such, it will be of no use.

- Ascertaining Correct Trend:
  
  It is very difficult to ascertain the correct trend if there is a structural change in a firm which are frequently happened.

- Supply Misleading Information:
  
  Sometimes a comparative financial statement provides meaningless information, e.g. if a negative amount comes in base year, and a positive amount in the next year, it is not possible to find out the change in percentage.

- Uniformity in Principle:
  
  There must be a consistency while following accounting principles, concepts and convention. But in practice, this is not done and as such, multi-year analysis becomes useless.

---

IMPORTANCE OF COMPARATIVE ANALYSIS:

Comparative analyses are important if you want to understand a problem better or find answers to important questions. Here are the main goals businesses want to reach through comparative analysis.

- It is a part of the diagnostic phase of business analytics. It can answer many of the most important questions a company may have and help you figure out how to fix problems at the company’s core to improve performance and even make more money.
• It encourages a deep understanding of the opportunities that apply to specific processes, departments, or business units. This analysis also ensures that we’re addressing the real reasons for performance gaps.
• It is used a lot because it helps people understand the challenges an organization has faced in the past and the ones it faces now. This method gives objective, fact-based information about performance and ways to improve it.

OBJECTIVES OF THE STUDY:
✓ To study and learn about Matrix Engineering Company.
✓ To recognize the profitability of the company.
✓ To identify the strength, weakness, opportunities and threats of the Matrix Engineering Company.
✓ To analyze and determine the reasons behind the change in the financial performance of the company.
✓ To gain insights about the performance of company through comparison.

PRIMARY PURPOSE OF COMPARATIVE ANALYSIS:
The primary purpose of comparative analysis is to provide a structured framework for decision-making by:
✓ Facilitating Informed Choices: Comparative analysis equips decision-makers with data-driven insights, enabling them to make well-informed choices among multiple options.
✓ Identifying Trends and Patterns: It helps identify recurring trends, patterns, and relationships among entities or variables, shedding light on underlying factors influencing outcomes.
✓ Supporting Problem Solving: Comparative analysis aids in solving complex problems by systematically breaking them down into manageable components and evaluating potential solutions.
✓ Enhancing Transparency: By comparing multiple options, comparative analysis promotes transparency in decision-making processes, allowing stakeholders to understand the rationale behind choices.
✓ Mitigating Risks: It helps assess the risks associated with each option, allowing organizations to develop risk mitigation strategies and make risk-aware decisions.
✓ Optimizing Resource Allocation: Comparative analysis assists in allocating resources efficiently by identifying areas where resources can be optimized for maximum impact.
✓ Driving Continuous Improvement: By comparing current performance with historical data or benchmarks, organizations can identify improvement areas and implement growth strategies.

IMPORTANCE OF COMPARATIVE ANALYSIS IN DECISION-MAKING:
➢ Data-Driven Decision-Making: Comparative analysis relies on empirical data and objective evaluation, reducing the influence of biases and subjective judgments in decision-making. It ensures decisions are based on facts and evidence.
➢ Objective Assessment: It provides an objective and structured framework for evaluating options, allowing decision-makers to focus on key criteria and avoid making decisions solely based on intuition or preferences.
➢ Risk Assessment: Comparative analysis helps assess and quantify risks associated with different options. This risk awareness enables organizations to make proactive risk management decisions.
➢ Prioritization: By ranking options based on predefined criteria, comparative analysis enables decision-makers to prioritize actions or investments, directing resources to areas with the most significant impact.
➢ Strategic Planning: It is integral to strategic planning, helping organizations align their decisions with overarching goals and objectives. Comparative analysis ensures decisions are consistent with long-term strategies.
➢ Resource Allocation: Organizations often have limited resources. Comparative analysis assists in allocating these resources effectively, ensuring they are directed toward initiatives with the highest potential returns.
➢ Continuous Improvement: Comparative analysis supports a culture of continuous improvement by identifying areas for enhancement and guiding iterative decision-making processes.
➢ Stakeholder Communication: It enhances transparency in decision-making, making it easier to communicate decisions to stakeholders. Stakeholders can better understand the rationale behind choices when supported by comparative analysis.

➢ Competitive Advantage: In business and competitive environments, comparative analysis can provide a competitive edge by identifying opportunities to outperform competitors or address weaknesses.

➢ Informed Innovation: When evaluating new products, technologies, or strategies, comparative analysis guides the selection of the most promising options, reducing the risk of investing in unsuccessful ventures.

In summary, comparative analysis is a valuable tool that empowers decision-makers across various domains to make informed, data-driven choices, manage risks, allocate resources effectively, and drive continuous improvement. Its structured approach enhances decision quality and transparency, contributing to the success and competitiveness of organizations and research endeavours.

RECENT TRENDS RELATED TO THE STUDY

Recent trends in financial statements reveal a shift towards digitization, with increased adoption of automation and data analytics for efficient processing. Comparative analysis indicates a focus on cost optimization strategies amidst economic uncertainties, leading to improved operational efficiencies. Balance sheets demonstrate a trend of strengthening liquidity positions and prudent debt management. Income statements reflect efforts towards revenue diversification and margin enhancement through innovation and market expansion. Cash flow statements highlight a prioritization of cash preservation and prudent investment decisions. Overall, financial statements illustrate adaptability to evolving market dynamics and a commitment to sustainable growth strategies.

RESEARCH METHODOLOGY AND DATA COLLECTION

RESEARCH DESIGN: The research design of this report is exploratory. The present study is designed to measure the profitability and performance of Matrix Engineering Company in terms of various financial characteristics incorporated in the comparative statements.

DATA COLLECTION: The evaluation of profitability and financial performance will be done for period of six years from March 2018 to March 2023. Necessary secondary data was obtained from the audited annual reports, namely financial statements, and other records of the company given for the purpose of effective periodical analysis.

DATA PROCESSING AND ANALYSIS

COMPARATIVE BALANCE SHEET:
INTERPRETATION:
The graph represents the total asset and liabilities of a company over a six year period. The gradual increase in both total assets and liabilities over successive years indicates steady growth and expansion within the company. This suggests that the company is effectively managing its resources to fuel growth while also leveraging external funds to support its operations. Such a trend may signify a healthy financial position, as long as the increase in assets outpaces liabilities, indicating positive net worth. However, careful monitoring of debt levels relative to asset growth is necessary to ensure sustainable financial health and avoid overleveraging. Overall, this consistent upward trajectory reflects a sound and progressively growing enterprise.

COMPARATIVE INCOME STATEMENT:

INTERPRETATION:
The graph represents the net profit of a company over a six year periods. There is a fluctuation in net profit over the years. Fluctuations in net profit on a profit or loss account reflect changes in a company's financial performance over time. There was a gradual decrease in net profit in the year 2019-2020 which may signal challenges such as declining sales, rising expenses, or inefficient operations. Conversely, there was a sudden gradual increase in net profit in the year 2020-2021 which indicates healthy growth, driven by factors like increased sales or cost efficiencies. However, occasional fluctuations are common due to various factors like market dynamics, economic conditions. Analyzing these fluctuations alongside other financial metrics provides insights into the company's overall financial health, guiding strategic decision-making and potential areas for improvement.

FINDINGS

✓ The comparative analysis of financial statements revealed significant insights into the company's performance over time. It unveiled trends in revenue, expenses, and profitability, highlighting areas of strength and weakness.
✓ Strong positive correlations were observed among Gross Profit Ratio and Fixed Asset Turnover Ratio, indicating their significant positive impact on company performance.
✓ Current Ratio and Cash Ratio has weak positive correlation between the variables.
✓ Net Profit Ratio showed a positive relationship with Gross Profit Ratio, with statistically significant in some cases.
Regression analysis supported the positive relationship with Net Profit Ratio and Gross Profit Ratio. The p-value confirmed statistical significance.

RECOMMENDATIONS

Gradually increasing assets and liabilities while managing fluctuations in net profit is a delicate balance that requires strategic planning, prudent decision-making, and a keen understanding of financial management principles. To embark on this journey, one must first comprehend the interplay between assets, liabilities, and net profit within the context of business operations.

Assets represent the resources owned by a business that hold economic value and contribute to generating revenue. These can include tangible assets like property, equipment, and inventory, as well as intangible assets such as patents, trademarks, and goodwill. Liabilities, on the other hand, signify the obligations and debts owed by a business to external parties, including loans, accounts payable, and accrued expenses. The prudent management of assets and liabilities involves a gradual increase in both to support business growth while ensuring financial stability and liquidity.

One approach to gradually increasing assets involves strategic investments in revenue-generating opportunities and capital expenditures that enhance operational efficiency and productivity. For instance, acquiring new equipment or expanding infrastructure can boost production capacity and competitiveness in the market, thereby increasing asset value over time. Similarly, prudent allocation of resources towards research and development initiatives can lead to the creation of innovative products or services, strengthening intangible assets and long-term profitability.

Concurrently, liabilities can be strategically leveraged to finance growth initiatives and support asset expansion. By securing loans or lines of credit at favorable terms, businesses can access additional capital to fund investments without depleting existing cash reserves or equity. However, it's crucial to manage debt levels responsibly and avoid excessive leverage, which could strain cash flow and jeopardize financial stability.

Despite efforts to increase assets and liabilities gradually, fluctuations in net profit are inevitable due to various internal and external factors influencing business performance. Economic cycles, market volatility, changing consumer preferences, and industry competition can all impact revenue streams, expenses, and ultimately, net profit margins. Moreover, unexpected events such as natural disasters, regulatory changes, or pandemics can disrupt operations and lead to temporary fluctuations in profitability.

To mitigate the impact of such fluctuations, businesses must adopt proactive measures to optimize revenue generation, control costs, and adapt to changing market conditions. This may involve diversifying product offerings, expanding into new markets, implementing cost-saving initiatives, or enhancing customer engagement and loyalty. Additionally, maintaining a robust financial reporting and analysis framework enables timely identification of trends, risks, and opportunities, empowering management to make informed decisions and take corrective actions as needed.

CONCLUSION:

Comparative analysis of financial statements provides valuable insights into a company's performance. Through trend identification, it facilitates understanding of financial health, growth prospects, and operational efficiency. This study underscores the importance of utilizing comparative analysis as a tool for strategic planning, risk assessment, and investment evaluation. Ultimately, the comprehensive understanding gained through comparative analysis empowers the company to adapt proactively to dynamic market conditions and achieve their financial objectives.

The gradual increase in assets and liabilities coupled with fluctuations in net profit reflects the dynamic nature of a company's financial health. As assets grow over time, it signifies the company's investment in resources such as property, equipment, and investments, aimed at expanding operations or enhancing efficiency. Similarly, the rise in liabilities indicates strategic leveraging for growth opportunities or operational needs, which can include loans, bonds, or accounts payable.

However, the fluctuation in net profit underscores the complexities of business operations, impacted by various factors including market conditions, competition, and internal management decisions. While revenue may exhibit growth trends, expenses, including operating costs, taxes, and interest payments, can vary, influencing the bottom line.

In essence, the interplay between assets, liabilities, and net profit portrays the evolving nature of a company's financial landscape. It underscores the necessity for prudent financial management, strategic decision-making, and adaptability to navigate through economic uncertainties while striving for sustainable growth and profitability. This dynamic equilibrium necessitates vigilant monitoring and proactive measures to ensure long-term viability and value creation for stakeholders.