



Basic Financial Statement Analysis Practices: A Study on Infosys

Medarapu Sudhakar

Kakatiya University- Warangal –Telangana, INDIA

Abstract: *The Balance Sheet, also called a statement of financial position, is a summary of an organization's assets, liabilities and equity as of a specific date. It is based on the fundamental accounting equation $Assets = Liabilities + Owners' Equity$. This equation must always be in balance. Financial statements documents contain valuable information about the financial position and financial health of business. With a little background knowledge and some simple calculations, we can better understand the valuable financial information. This article explains what a balance sheet like. It will help to recognize the various accounts listed on the statements and explain how to use that information to gain an understanding of the practice's financial performance and position.*

Key words: *financial statements, financial evaluation, financial practices.*

Introduction:

Financial statements include the income statement, balance sheet, statement of cash flows, and a statement of changes in equity. Financial statement analysis is a method or process involving specific techniques for evaluating risks, performance, financial health, and future prospects of an organization. Financial analysis is the process of evaluating businesses, projects, budgets and other finance-related entities to determine their performance and suitability. When looking at a specific company, a financial analyst conducts analysis by focusing on the income statement, balance sheet and cash flow statement. Financial statement analysis is the process of reviewing and evaluating a company's financial statements (such as the balance sheet or profit and loss statement), thereby gaining an understanding of the financial health of the company and enabling more effective decision making.

Importance of Financial statements:

1. The balance sheet, which summarizes what a firm owns and owes at a point in time.
2. The income statement, which reports on how much a firm earned in the period of analysis.
3. The statement of cash flows, which reports on cash inflows and outflows to the firm during the period of analysis.
4. Financial statement analysis is a judgemental process which aims to estimate current and past financial positions and the results of the operation of an enterprise, with primary objective of determining the best possible estimates and predictions about the future conditions.
5. It essentially involves regrouping and analysis of information provided by financial statements to establish relationships and throw light on the points of strengths and weaknesses of a business enterprise, which can be



useful in decision-making involving comparison with other firms (cross sectional analysis) and with firms' own performance, over a time period.

Significance of Analysis of Financial Statements:

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of the balance sheet and the statement of profit and loss. Financial analysis can be undertaken by management of the firm, or by parties outside the firm, viz., owners, trade creditors, lenders, investors, labour unions, analysts and others. The nature of analysis will differ depending on the purpose of the analyst. A technique frequently used by an analyst need not necessarily serve the purpose of other analysts because of the difference in the interests of the analysts. Financial analysis is useful and significant to different users in the following ways:

Finance manager: Financial analysis focuses on the truth and relationships related to managerial performance, corporate competence, financial strengths and weaknesses and creditworthiness of the company. A finance manager must be well-equipped with the different tools of analysis to make rational decisions for the firm. The tools for analysis help in studying accounting data so as to determine the continuity of the functional policies, investment value of the industry, credit ratings and testing the efficiency of operations. The techniques are equally important in the area of financial control, enabling the finance manager to make constant reviews of the genuine financial operations of the firm to analyse the

causes of major deviations, which may help in counteractive action wherever indicated.

Top management: The importance of financial analysis is not limited to the finance manager alone. It has a broad range which includes top management in general and other practical managers. Management of the firm would be interested in every aspect of the financial analysis. It is their generally responsibility to see that the resources of the firm are used most efficiently and that the firm's financial condition is sound. Financial examination helps the management in measuring the achievement of the company's operations, appraising the individual's show and evaluating the system of internal control.

Net worth: In general, net worth is the total assets owned by an individual or business less any debt obligations and other financial liabilities. On a company's balance sheet, net worth is demonstrated through the owners' equity section. The balance sheet is a snapshot at a single point in time of the company's accounts - covering its assets, liabilities and shareholders' equity. The purpose of the balance sheet is to give users an idea of the company's financial position along with displaying what the company owns and owes.

Investment: In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or will be sold at a higher price for a profit. A financial investment is an asset that you put money into with the hope that it will grow or appreciate into a larger sum of money. A few of the most common types of financial investments are Certificates



of Deposits (CD's) and bonds, which pay interest to the owners.

Total liabilities: Total liabilities are the aggregate debt and financial obligations owed by a business to individuals and organizations at any specific period of time. Total liabilities are always displayed on the balance sheet and represent the total debt of an entity.

All assets of an entity are either owned by the entity and classified as equity or are subject to future obligations and are classified as a liability.

Net current assets: The value of net current assets, or working capital, helps to gauge a company's short-term financial health. Net Current Asset Value equals the company's current assets minus its total liabilities. This gives an additional margin of safety versus book value - on this valuation measure; one is essentially paying nothing for all the fixed assets (buildings, machinery, etc, or any goodwill items that may exist.

Objectives:

At the conclusion of this educational activity participants will be able to:

1. To analyze information obtained from balance sheet of financial statements using basic Correlation.
2. To Implement financial evaluations in the Infosys practices.

Research methodology:

With a view to achieve the aforesaid objectives the scope of the present study is restricted to the analysis of the comparative analysis in financial statement practices of Infosys for the last 7 years under four heads namely method of appraisal, exposé of financial statement practices, form of presentation

and usefulness in financial decision. This study is based on the secondary data collected from the annual reports and websites of Infosys for the accounting year 2010 -11 to 2015-16. The present study will be helpful to develop the insight of financial statement practices in various interest groups as well as to improve the financial statement practices of Infosys.

Collection of the data:

This study is based on the secondary data collected from Infosys's Annual Report, Balance Sheet, Financial Ratios and various other financial statements. Data is also extracted from different websites

Data processing:

After the collection of data from various sources, the data has been classified into tables and analysis was conducted based on the classified data. An interpretation was drawn on the impact of financial statements on firm's source of funds and application of funds and analysis of comparative study in various years' financial statements of Infosys.

Scope of the Study

The present study is undertaken to study on financial statement practices in Infosys. For this purpose, financial statement practices followed by Infosys have been examined for the financial year 2010 -11 to 2015-16. This study is only focus on the balance sheet of Infosys financial year 2010 -11 to 2015-16.

Analysis of Financial Statements:

Comparative Statements: These are the statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or



more periods. It usually applies to the two important financial statements, namely, balance sheet and statement of profit and loss prepared in a comparative form. The financial data will be comparative only when same accounting principles are used in preparing these statements. If this is not the case, the deviation in the use of accounting principles should be mentioned as a footnote. Comparative figures indicate the trend and direction of financial position and operating results. This analysis is also known as 'horizontal analyses'.

The Importance of the Comparative Balance Sheet in an Annual Report:

A comparative balance sheet analysis is a method of analyzing a company's balance sheet over time to identify changes and trends. Comparative analysis of financial statements, including balance sheets, allows management and investors to assess a company's performance over time and against its industry peers. Comparing the performance of the individual components of balance sheets - assets, liabilities and shareholders'

equity -- management can identify operational areas that require improvements and investors can make informed buy-sell decisions.

Horizontal Analysis

Horizontal analysis is the side-by-side assessment of financial report data. For comparing balance sheets of the same company or of changed companies in the same business, this means tabulating the asset, liability and shareholders' equity information of multiple periods in adjacent columns. Public companies typically provide tables showing their financial performance over several quarters, in the case of quarterly filings, and over at least two years, in the case of yearly filings. Data from following periods can allow stakeholders, such as management and investors, to assess short- and medium-term show, while the financial results from periods spanning some years provide close into medium- and long-term performance. For example, if a company's total debt is shrinking over time, it means that the company is reducing its interest expenses and potentially driving boundaries higher.



Comparative Balance Sheet with Horizontal Analysis of INFOSYS as at March 31, 2010-11 and March 2011-12								
(Rupees in Lakhs)								
Year	Mar '12	Mar '11	Absolute change (Increase/ Decrease)	Percentage (Increase/ Decrease)	Mar '11	Mar '10	Absolute change (Increase/ Decrease)	Percentage (Increase/ Decrease)
	A	B	C = A-B	D = C /B x 100	A	B	C = A-B	D = C /B x 100
Sources Of Funds								
Total Share Capital	287	287	0.00	0	287	287	0	0
Equity Share Capital	287	287	0.00	0	287	287	0	0
Reserves	29,470.00	24,214.00	5,256.00	21.7	24,214.00	21,749.00	2465	11.3
Net worth	29,757.00	24,501.00	5,256.00	21.5	24,501.00	22,036.00	2465	11.2
Total Liabilities	29,757.00	24,501.00	5,256.00	21.5	24,501.00	22,036.00	2465	11.2
Comparative Balance Sheet with Horizontal Analysis of INFOSYS as at March 31, 2010-11 and March 2011-12								
(Rupees in Lakhs)								
Year	Mar '12	Mar '11	Absolute change (Increase/ Decrease)	Percentage (Increase/ Decrease)	Mar '11	Mar '10	Absolute change (Increase/ Decrease)	Percentage (Increase/ Decrease)
	A	B	C = A-B	D = C /B x 100	A	B	C = A-B	D = C /B x100
Application Of Funds								
Gross Block	4,061.00	4,056.00	5.00	0.1	4,056.00	6,357.00	-2,301.00	-36.2
Less: Accum. Depreciation	0	0	0.00	0.00	0	2,578.00	-2,578.00	0.0
Net Block	4,061.00	4,056.00	5.0	0.1	4,056.00	3,779.00	277.00	7.3
Capital Work in Progress	588	249	339.00	136.1	249	409	-160.00	-39.1



Investments	1,409.00	1,325.00	84.00	6.3	1,325.00	4,636.00	-3,311.00	-71.4
Sundry Debtors	5,404.00	4,212.00	1,192.00	28.3	4,212.00	3,244.00	968.00	29.8
Cash and Bank Balance	18,057.00	13,665.00	4,392.00	32.1	13,665.00	929	12,736.00	1,370.9
Total Current Assets	23,461.00	17,877.00	5,584.00	31.2	17,877.00	4,173.00	13,704.00	328.4
Loans and Advances	6,296.00	5,347.00	949.00	17.7	5,347.00	4,201.00	1,146.00	27.3
Fixed Deposits	0.00	0	0.00	0.0	0	8,868.00	-8,868.00	0
Total CA, Loans & Advances	29,757.00	23,224.00	6,533.00	28.1	23,224.00	17,242.00	5,982.00	34.7
Current Liabilities	2,454.00	1,880.00	574.00	30.5	1,880.00	1,995.00	-115.00	-5.8
Provisions	3,604.00	2,473.00	1,131.00	45.7	2,473.00	2,035.00	438.00	21.5
Total CL & Provisions	6,058.00	4,353.00	1,705.00	39.2	4,353.00	4,030.00	323.00	8
Net Current Assets	23,699.00	18,871.00	4,828.00	25.6	18,871.00	13,212.00	5,659.00	42.8
Total Assets	29,757.00	24,501.00	5,256.00	21.5	24,501.00	22,036.00	2,465.00	11.2

Source: Secondary data

(Table-1)

Comparative Balance Sheet with Horizontal Analysis of INFOSYS as at March 31, 2012-13 and March 2013-14								
(Rupees in Lakhs)								
Year	Mar '14	Mar '13	Absolute change (Increase/Decrease)	Percentage (Increase/Decrease)	Mar '13	Mar '12	Absolute change (Increase/Decrease)	Percentage (Increase/Decrease)
	A	B	C = A-B	D = C / B x 100	A	B	C = A-B	D = C / B x 100



Sources Of Funds								
Total Share Capital	286	287	-1.00	-0.3	287	287	0	0
Equity Share Capital	286	287	-1.00	-0.3	287	287	0	0
Reserves	41,806.00	35,772.00	6,034.00	16.9	35,772.00	29,470.00	6302	21.4
Networth	42,092.00	36,059.00	6,033.00	16.7	36,059.00	29,757.00	6302	21.2
Total Liabilities	42,092.00	36,059.00	6,033.00	16.7	36,059.00	29,757.00	6302	21.2
Comparative Balance Sheet with Horizontal Analysis of INFOSYS as at March 31, 2012-13 and March 2013-14								
(Rupees in Lakhs)								
Year	Mar '14	Mar '13	Absolute change (Increase/Decrease)	Percentage (Increase/Decrease)	Mar '13	Mar '12	Absolute change (Increase/Decrease)	Percentage (Increase/Decrease)
	A	B	C = A-B	D = C / B x 100	A	B	C = A-B	D = C / B x100
Application Of Funds								
Gross Block	10,374.00	8,029.00	2,345.00	29.2	8,029.00	4,061.00	3,968.00	97.7
Less: Accum. Depreciation	4,642.00	3,576.00	1,066.00	29.8	3,576.00	0	3,576.00	0.0
Net Block	5,732.00	4,453.00	1,279.00	28.7	4,453.00	4,061.00	392.00	9.7
Capital Work in Progress	954	1,135.00	-181.00	-15.9	1,135.00	588	547.00	93.0
Investments	6,717.00	4,344.00	2,373.00	54.6	4,344.00	1,409.00	2,935.00	208.3
Sundry Debtors	7,336.00	6,365.00	971.00	15.3	6,365.00	5,404.00	961.00	17.8
Cash and Bank Balance	24,100.00	20,401.00	3,699.00	18.1	20,401.00	18,057.00	2,344.00	13.0



Total Current Assets	31,436.00	26,766.00	4,670.00	17.4	26,766.00	23,461.00	3,305.00	14.1
Loans and Advances	7,873.00	6,330.00	1,543.00	24.4	6,330.00	6,296.00	34.00	0.5
Fixed Deposits	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.0
Total CA, Loans & Advances	39,309.00	33,096.00	6,213.00	18.8	33,096.00	29,757.00	3,339.00	11.2
Current Liabilities	4,503.00	3,181.00	1,322.00	41.6	3,181.00	2,454.00	727.00	29.6
Provisions	6,117.00	3,788.00	2,329.00	61.5	3,788.00	3,604.00	184.00	5.1
Total CL & Provisions	10,620.00	6,969.00	3,651.00	52.4	6,969.00	6,058.00	911.00	15.0
Net Current Assets	28,689.00	26,127.00	2,562.00	9.8	26,127.00	23,699.00	2,428.00	10.2
Total Assets	42,092.00	36,059.00	6,033.00	16.7	36,059.00	29,757.00	6,302.00	21.2

Source: Secondary data

(Table-2)



Comparative Balance Sheet with Horizontal Analysis of INFOSYS as at March 31, 2014-15 and March 2015-16								
(Rupees in Lakhs)								
Year	Mar '16	Mar '15	Absolute change (Increase/Decrease)	Percentage (Increase/Decrease)	Mar '15	Mar '14	Absolute change (Increase/Decrease)	Percentage (Increase/Decrease)
	A	B	C = A-B	$D = C / B \times 100$	A	B	C = A-B	$D = C / B \times 100$
Sources Of Funds								
Total Share Capital	1,148.00	574	574.00	100	574	286	288	100
Equity Share Capital	1,148.00	574	574.00	100	574	286	288	100
Reserves	56,009.00	47,494.00	8,515.00	17.9	47,494.00	41,806.00	5688	13.6
Networth	57,157.00	48,068.00	9,089.00	18.9	48,068.00	42,092.00	5976	14.2
Total Liabilities	57,157.00	48,068.00	9,089.00	18.9	48,068.00	42,092.00	5976	14.2
Comparative Balance Sheet with Horizontal Analysis of INFOSYS as at March 31, 2014-15 and March 2015-16								
(Rupees in Lakhs)								
Year	Mar '16	Mar '15	Absolute change (Increase/Decrease)	Percentage (Increase/Decrease)	Mar '15	Mar '14	Absolute change (Increase/Decrease)	Percentage (Increase/Decrease)
	A	B	C = A-B	$D = C / B \times 100$	A	B	C = A-B	$D = C / B \times 100$
Application Of Funds								
Gross Block	14,709.00	12,827.00	1,882.00	14.7	12,827.00	10,374.00	2,453.00	23.6
Less: Accum. Depreciation	6,461.00	5,480.00	981.00	17.9	5,480.00	4,642.00	838.00	18.1
Net Block	8,248.00	7,347.00	901.00	12.3	7,347.00	5,732.00	1,615.00	28.2



Capital Work in Progress	934	769	165.00	21.5	769	954	-185.00	-19.4
Investments	11,113.00	6,857.00	4,256.00	62.1	6,857.00	6,717.00	140.00	2.1
Sundry Debtors	9,798.00	8,627.00	1,171.00	13.6	8,627.00	7,336.00	1,291.00	17.6
Cash and Bank Balance	29,176.00	27,722.00	1,454.00	5.2	27,722.00	24,100.00	3,622.00	15.0
Total Current Assets	38,974.00	36,349.00	2,625.00	7.2	36,349.00	31,436.00	4,913.00	15.6
Loans and Advances	13,498.00	10,491.00	3,007.00	28.7	10,491.00	7,873.00	2,618.00	33.3
Fixed Deposits	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.0
Total CA, Loans & Advances	52,472.00	46,840.00	5,632.00	12.0	46,840.00	39,309.00	7,531.00	19.2
Current Liabilities	6,801.00	5,700.00	1,101.00	19.3	5,700.00	4,503.00	1,197.00	26.6
Provisions	8,809.00	8,045.00	764.00	9.5	8,045.00	6,117.00	1,928.00	31.5
Total CL & Provisions	15,610.00	13,745.00	1,865.00	14	13,745.00	10,620.00	3,125.00	29.4
Net Current Assets	36,862.00	33,095.00	3,767.00	11.4	33,095.00	28,689.00	4,406.00	15.4
Total Assets	57,157.00	48,068.00	9,089.00	18.9	48,068.00	42,092.00	5,976.00	14.2

Source: Secondary data

(Table-3)



Interpretation:

From the above Table (Table -1), It reveals that, the Net worth value is increased by 11.2 % to 21.5% comparing to in year of 2010-11& 2011-12. Net block value is decreased by 7.3 % to 0.1% comparing to in year of 2010-11& 2011-12. Investments value is increased by - 71.2 % to 6.3% comparing to in year of 2010-11& 2011-12. Net current assets value is decreased by 42.8 % to 25.6% comparing to in year of 2010-11& 2011-12.

From the above Table (Table -2), It is explained that, the Net worth value is decreased by 21.2 % to 16.7% comparing to in year of 2012-13& 2013-14. Net block value is decreased by 9.7 % to 28.7% comparing to in year of 2012-13& 2013-14. Investments value is decreased by 208.3% to 54.6% comparing to in year of 2012-13& 2013-14. Net current assets value is decreased by 10.2 % to 9.8 % comparing to in year of 2012-13& 2013-14.

From the above Table (Table -3), It indicates that, the Net worth value is increased by 14.2 % to 18.9 % comparing to in year of 2014-15& 2015--16. Net block value is decreased by 28.2 % to 12.3% comparing to in year of 2014-15& 2015--16. Investments value is increased by 2.1 % to 62.1% comparing to in year of 2014-15& 2015--16. Net current assets value is decreased by 15.4 % to 11.4% comparing to in year of 2014-15& 2015--16.

Conclusion:

Financial statements are prepared primarily for decision-making. They play a dominant role-in setting the framework of management decisions. But the information provided in financial

statements is not an end itself as no meaningful conclusions can be drawn from these statements alone. The information provided in the financial statements is of immense use in making decisions through financial analysis. The Infosys is increased the investments 2015-16, but current assets of Infosys are decreased in 2015-16. Net worth value is increased in the year 2015-16. It will create company value addition.

Reference

1. **Alexander David and Nobes Christopher (2004)**, Financial Accounting: an international introduction, 2nd edn, Harlow Pearson Education.
2. **Alexander David, Britton Anne and Jorissen Ann (2007)**, International Financial Reporting and Analysis, 3rd edn, London, Thomson Learning.
3. **Archer, S, H.; Choate, G.M. and Racette, G (1979)** : financial management an Analysis (John Wiley and sons, New York), Ed., p.538
4. **Batty J., (1975)** management Accountancy (Macdonald. And Evans Ltd, London), Ed, p.431
5. **Bromwich, Michael (1985)**, The Economics of Accounting Standard Setting, Englewood Cliff: Prentice Hall International, 1.
6. **Choi, F.D.S. and Levich, R. (1990)**, The Capital Market Effects of International Accounting Diversity, Dow Jones-Irwin, Homewood.
7. **Choi, F.D.S. and Meek, G.K. (2005)**, International Accounting, Prentice-Hall, Upper Saddle River. NJ.
8. **Choi, F.D.S. and Meek, G.K. (2007)**, International Accounting,



- Pearson Education Inc; First Impression, South Asia.
9. **D. D'Souza (2003)**, Indian Accounting Standards and GAAP, 2nd Edition, India, Snow White Publications, sec VI, ch. 28, PP 1048-284
 10. **Helfert, Erich A.: (1957)** Techniques of financial Analysis (Richard D. Irwin, Inc. Homewood, Illinois) Ed. , p.57
 11. **Hofstede G. (1984)**, Cultunil's consequences : international differences in work-related values. Beverly Hills. Sage.
 12. **Jawaharlal (2005)**, Corporate Financial Reporting Theory and Practice, Taxmann Allied Services (P.) Ltd., 2nd Edition.
 13. **Nobes, C.W, and R. Parker (2006)**. Comparative International Accounting, 9th Edn., Prentice Hall, Financial Times.
 14. **Ordelheide D. and KPMG (eds) (2001)**, Transnational Accounting, 2nd edn, London, Palgrave.
 15. **Parker, R.H. (1994)**, Context, diversity and harmonisation, Ch. 1 in Cook and Parker (eds), Financial Reporting in the West Pacific Rim, Routledge, London.
 16. **Porwal, H. (2003)**, Financial Accounting Standards : A Comparative Study, Indus Valley Publications, Jaipur, P' edition.
 17. **R.D Kennedy and McMullen, (1968)** Financial Statement- From Analysis and Interpretations, pp.265-266
 18. **Radebaugh, L. and Gray, S (2002)**, International Accounting and Multinational Enterprises, Wiley, New York.
 19. **Saudagaran, S. M. (2004)**, International Accounting : A user perspective 2nd E., Ohio : South - Western College Publishing.
 20. **Sharma R.K. and Gupta S.K.(2000)** management Accounting Kalyani publishers, New Delhi,