RESEARCH ARTICLE OPEN ACCESS

A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE USING RATIO ANALYSIS

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Abstract:

Anticipation: Financial management estimates the financial needs of the company. That is, it finds out how much finance is required by the company.
Acquisition: It collects finance for the company from different sources.

Allocation: It uses this collected finance to purchase fixed and current assets for the company.
Assessment: It also controls all the financial activities of the company. Financial management is the most important functional area of management. All other functional areas such as production management, marketing management, personnel management, etc. depends on Financial management. Efficient financial management is required for survival, growth and success of the company or firm.
Theterm_financialanalysisalsoknownasanalysisandinterpretationoffinancialstatements‘refstotheprocessofdeterminingfinancialstrengthandweaknessesofthefirmbyestablishing strategic relationship between the items of the balance sheet , profit and loss account and other operative data.

KEYWORDS: Budgeting decision, Account receivable, financial reporting, ratio etc

INTRODUCTION

"Financial management is that activity of management which is concerned with the planning, procuring and controlling of the firm's financial resources."-ByDeepika &Maya Rani

–Financial Management is the Operational Activity of a business that is responsible for obtainingandeffectivelyutilizingthefundsnecessaryforefficientoperation.- ByJosephMassie

FinancialManagementistheprocessofmanagingthefinancialresources,includingaccountingandfinancialreporting,budgeting,collectingaccountsreceivable,riskmanagement,and insuranceforabusiness.

Best PracticesWhenApproachingFinancialPlanning

- Setmeasurablegoals.
- Understandthe effectyourfinancialdecisionshaveonotherfinancialissues.
- Re-evaluate yourfinancialplanperiodically.
- Startnow-don'tassumefinancialplanningisfor whenyougetolder.
- Startwithwhatyou've got-don'tassume financialplanningisonlyfor the wealthy.
- Takecharge-youareincontrolofthefinancialplanningengagement.
- Lookatthebigpicture-financialplanningismorethanjustretirementplanningortaxplanning.
- Don'tconfusefinancialplanningwithinvesting.
- Don'texpectunrealisticreturnsoninvestments.
- Don'twaituntila moneycrisisto beginfinancialplanning.

Methodsoffinancialanalysis:-

Thefollowingmethodsof analysisaregenerallyused:-

1. ComparativeStatements.
2. TrendAnalysis.
3. Common-SizeStatements.
4. FundsflowAnalysis.
5. CashAnalysis
6. RatioAnalysis
7. Cost-volume-ProfitAnalysis

WORKINGCAPITAL MANAGEMENT

Working capital management means management of current assets of the firm.Workingcapital can be defined in simple terms as excess of current assets over current liabilities.Inshort it is the difference between inflow and outflow of funds. Working capital includesstock of raw material, semi finished goods including work in progress, cash in hand and bankand debtors after deducting current liabilities i.e. Sunday creditors for institutions and otherfinancial institutions within 12 months and creditors for purchase of Raw Material and anyshortterms advances towards sale of goods.

CompositionofWorkingCapital

WorkingcapitalconsistsofCurrentAssetsandCurrentLiabilities:

CurrentAssets:
Current Assets are those, which can be converted into cash with oneyear without affectingthe operations of the firm.In the management of working capital, two characteristics ofcurrentassets must be bornein mind:
CurrentLiabilities:

CurrentLiabilitiesarethose,whichareexpectedtofalldueormatureforpaymentinashort period notexceedingayearandrepresent short termsources of funds.

OBJECTIVESOFTHESTUDY

- Toensureoptimumfundsutilization.Oncethefundsareprocured,theyshouldbeutilizedin maximum possible way at least cost.
- To ensure safety on investment, i.e,funds should be invested in safe ventures so that adequate rate of return can be achieved.
- To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

RESEARCH METHODOLOGY

Research Design

This is a systematic way to solve the research problem and it is important component for the study without which researches may not be able to obtain the format. A research design is the arrangement of conditions for collection and analysis of data in a manager that aims to combine for collection and analysis of data relevance to the research purpose with economy in procedure.

Sources of Data

Data we collected based on two sources.

- Primary data.
- Secondary data.

Primary Data: The Primary data are those information's, which are collected afresh and forthefirst time, and thus happen to be original in character.

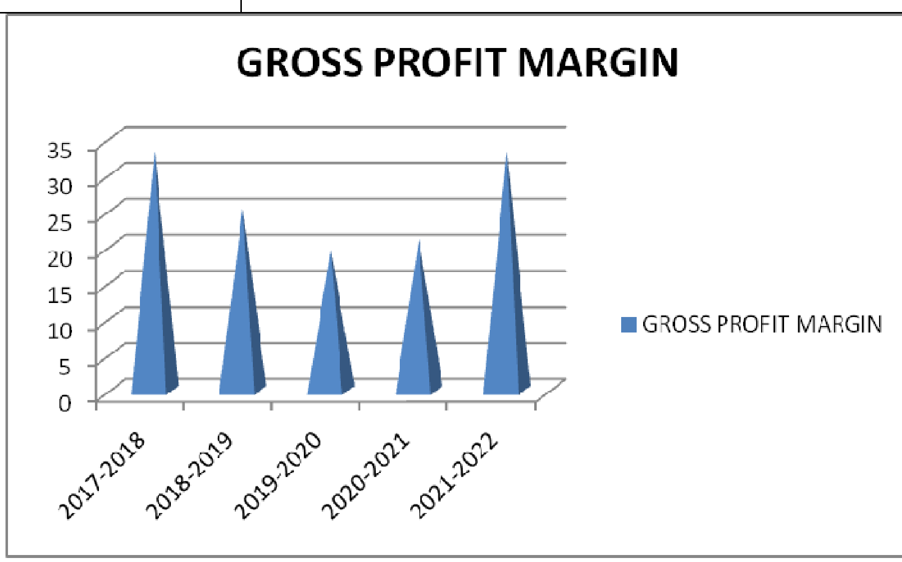
Secondary Data: The Secondary data are those which have already been collected by some other agency and which have already been processed. The sources of Secondary data are Annual Reports, browsing Internet, through magazines.

- **DATA ANALYSIS AND INTER PRETATIONS:**

. GROSSPROFITRATIO

Gross profit ratio is define as the relationship between the gross on the one hand and sales onother hand. The ratio is calculated by dividing the gross profit by net sales and represented inpercentage.
Gross Profit Ratio=(Gross Profit/Net Sales)*100

YEAR	GROSSPROFITMARGIN
2017-2018	33.28
2018-2019	25.31
2019-2020	19.48
2020-2021	21.1
2021-2022	33.28



INTERPRETATION

Gross Profit Margin on LG ELECTRONICS was 33.28% in 2017-2018 but then it had fallen for consecutive 2 yrs to reach to the level of 19.48 in 2018-19. It showed some improvement in 2019-20 but reached only till 21.1% not even close to the earlier levels. The reduction in the profits could be due to inefficiency or even may be because on the global economics lowdown. But even in the slowdown period it was enough to recover the operating expenses and maintain reserve. In 2021-22 it showed a tremendous increase and augmented to the levelof33.28%.

FINDINGS

1. ***PROFITABILITYRATIO***

   Gross

2. ***TURNOVERRATIO***

   Inventory turnover ratio is high in 2021-22. The first four year Debtor turnover ratio ishigh indicating much of the receivable are outstanding. The high debtor‘s turnoverhas more chances for bad debts. The turnover position fair creditors turnover ratio islowin 2017-18 , the payment period is not high.

3. ***LIQUIDITYPOSITION***

   Current ratio is 2.1 in 2021-2022, it is above standard normal level.It implies that thecompanyinvestslargeamountinbothcurrentassetsandcurrentliabilities.Theliquidityratio in2018-2019 is 0.44 and in2021-22 is 0.68.

SUGGESTIONS

1. Toseethatthecompanyinventoriesisatmaximumlevelinordertoincreasetheinventoryturnover to institute inventory management.
2. Credit or turn over should be improved to set a high period.
3. The Debtors turn over should be increased to maintain collection period
4. Liquidity ratio is all above the standard norms the company should make planning to minimize the current assets and current liabilities investment.

CONCLUSION

1. It should be borne in mind that the tool applied in the study to analysis the efficiency and effectiveness in financial management is most appropriate ones.
2. The firm LGELECTRONICS Liquidity position in terms of short term and long term are good.
3. The efficiency of the company is also good.

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