

# Financial Statement Analysis Using Common Size Statements



**Unit : 2**  
**Course Code: CMRC4201**  
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# Introduction

- **Common size statements** are the statement in which data of financial statements are presented in the form of percentage which is converted according to the common base like in Balance Sheet the values for each element of liability is converted into the percentage terms setting total figure on the Equity & Liability side equal to 100% and the values for each element of assets is converted into percentage terms setting the total figure on the Assets side assets equal to 100% and each element of income statement is converted in to the percentage to the common base sales as 100%.
- With the help of common size statement comparison of inter-firm and intra-firm performance and financial position becomes very easy due to a common base.

# **Types of Common size Statements**

- **Common Size Balance Sheet**
- **Common Size Income Statement.**

# Common Size Balance Sheet

- In the Common Size Balance Sheet the total balance (total assets or total liability) is taken as 100% and each element of Balance sheet is represented as a fraction of the respective total. When different periods data are represented then a trend of each element of balance sheet can be obtained.
- For example:- each element on the asset represent in the form of percentage of total asset (Total Assets=100%) and each element of liability represented in the form of a percentage of total liability (Total liability = 100%).

# Format of Common Size Balance Sheet

Particulars	2019 Absolute Amount (Rs.)	2020 Absolute Amount (Rs.)	2019 (in % terms)	2020 (in % terms)
<b>Equity And Liabilities</b>				
<b>1. Shareholders' Fund</b>				
(a) Share Capital	XXX	XXX	XX	XX
(b) Reserves and Surplus	XXX	XXX	XX	XX
<b>Total Shareholders' Fund</b>	XXX	XXX	XX	XX
<b>2. Non -Current Liabilities</b>				
(a) Long Term Borrowings	XXX	XXX	XX	XX
(b) Other long-term liabilities	XXX	XXXX	XX	XX
(c) Long-term provisions	XXX	XXX	XX	XX
<b>Total Non -Current Liabilities</b>	XXX	XXX	XX	XX
<b>3. Current Liabilities</b>				
(a) Short Term borrowings	XXX	XXX	XX	XX
(b) Trade payables	XXX	XXX	XX	XX
(c) Other current liabilities	XXX	XXX	XX	XX
(d) Short term provisions	XXX	XXX	XX	XX
<b>Total Current liabilities</b>	XXX	XXX	XX	XX
<b>Total Liabilities</b>	XXX	XXX	XX	XX
<b>Total Equity and Liabilities</b>	XXX	XXX	XX	XX

# Format of Common Size Balance Sheet

Particulars	2019 Absolute Amount (Rs.)	2020 Absolute Amount (Rs.)	2019 (in % terms)	2020 (in % terms)
<b>Assets</b>				
<b>A. Non-Current Assets</b>				
(a) Fixed Assets				
(1) Tangible Assets	XXX	XXX	XX	XX
(2) Capital work-in-progress	XXX	XXX	XX	XX
(3) Intangible Assets	XXX	XXX	XX	XX
<b>Total Fixed Assets</b>	<b>XXX</b>	<b>XXX</b>	<b>XX</b>	<b>XX</b>
(b) Non-current Investments	XXX	XXXX	XX	XX
(c) Long term loans and advances	XXX	XXX	XX	XX
(d) Other non-current assets	XXX	XXX	XX	XX
<b>Total Non-Current Assets</b>	<b>XXX</b>	<b>XXX</b>	<b>XX</b>	<b>XX</b>
<b>B. Current Assets</b>				
(a) Current investment	XXX	XXX	XX	XX
(b) Inventories	XXX	XXX	XX	XX
(c) Trade Receivables	XXX	XXX	XX	XX
(d) Cash and Bank balances	XXX	XXX	XX	XX
(e) Short –term loan and advances	XXX	XXX	XX	XX
(f) Other current assets	XXX	XXX	XX	XX
<b>Total Current Assets</b>	<b>XXX</b>	<b>XXX</b>	<b>XX</b>	<b>XX</b>
<b>Total Assets</b>	<b>XXX</b>	<b>XXX</b>	<b>XX</b>	<b>XX</b>

# Common Size Balance Sheet for X Ltd & Y Ltd.

Particulars	X Ltd. Amount ( <u>Rs.</u> )	Y Ltd. Amount ( <u>Rs.</u> )	X Ltd. (%)	Y Ltd. (%)
<b>Equity and Liabilities</b>				
1. Shareholders' Fund				
(a) Share Capital	50,000	80,000	32.25	43.24
(b) Reserves and Surplus	20,000	35,000	12.90	18.91
<b>Total Shareholders' Fund</b>	<b>70,000</b>	<b>1,20,000</b>	<b>45.16</b>	<b>64.86</b>
2. Total Non -Current Liabilities	60,000	45,000	38.70	24.32
3. Total Current Liabilities	25,000	20,000	16.12	10.81
<b>Total Liabilities(2+3)</b>	<b>85,000</b>	<b>65,000</b>	<b>54.84</b>	<b>35.14</b>
<b>Total Equity and Liabilities</b>	<b>1,55,000</b>	<b>1,85,000</b>	<b>100</b>	<b>100</b>
<b>Assets</b>				
A. Non-Current Assets				
(a) Total Fixed Assets	40,000	50,000	25.80	27.02
(b) Non-current Investments	35,000	20,000	22.58	10.81
(c) Long term loans and advances	40,000	55,000	25.80	29.72
(d) Other non-current assets	20,000	30,000	12.90	16.21
<b>Total Non-Current Assets(a+b+c+d)</b>	<b>1,35,000</b>	<b>1,55,000</b>	<b>87.10</b>	<b>83.78</b>
<b>Total Current Assets</b>	<b>20,000</b>	<b>30,000</b>	<b>12.90</b>	<b>16.22</b>
<b>Total Assets</b>	<b>1,55,000</b>	<b>1,85,000</b>	<b>100</b>	<b>100</b>



# Common Size Income Statement

- In Common Size Income Statement the values of all the elements of income statement is converted in to the percentage terms to the common base i.e., sales which is taken as equal to 100%. It provides a common base (sales=100%) through which we can calculate the contribution of cost and find out their efficiency and compare a firm's efficiency with that of another firm of similar nature of operating activity.



# Format of Common Size Income Statement

Particulars	Amount (Rs.) 2017	Amount (Rs.) 2018	2017 (%)	2018 (%)
Revenue	XXX	XXX	XX	XX
Cost of Goods Sold	XXX	XXX	XX	XX
<b>Gross Profit</b>	<b>XXX</b>	<b>XXX</b>	<b>XX</b>	<b>XX</b>
Expenses				
Office Expenses	XXX	XXX	XX	XX
Depreciation & Amortization	XXX	XXX	XX	XX
Interest	XXX	XXX	XX	XX
Advertising	XXX	XXX	XX	XX
<b>Total Expenses</b>	<b>XXX</b>	<b>XXX</b>	<b>XX</b>	<b>XX</b>
Profit Before Tax	XXX	XXX	XX	XX
Taxes	XXX	XXX	XX	XX
<b>Net profit</b>	<b>XXX</b>	<b>XXX</b>	<b>XX</b>	<b>XX</b>

# Common Size Income Statement of XYZ Ltd.

Particulars	2017 Amount (Rs.)	2017 %	2018 Amount (Rs.)	2018%
<b>Revenue/Sales</b>	8,00,000	100	12,00,000	100
Cost of Goods Sold	6,00,000	75	9,00,000	75
<b>Gross Profit</b>	<b>2,00,000</b>	<b>25</b>	<b>3,00,000</b>	<b>25</b>
<b>Expenses</b>				
Office Expenses	5,000	0.63	5,500	0.45
Depreciation & Amortization	2,500	0.31	2,000	0.17
Interest	1,000	0.12	2,200	0.18
Advertising	3,000	0.38	4,500	0.38
<b>Total Expenses</b>	<b>11,500</b>	<b>1.44</b>	<b>14,200</b>	<b>1.18</b>
Profit Before Tax	1,88,500	23.56	2,85,800	23.82
Taxes	47,125	5.89	71,450	5.95
<b>Net Profit</b>	<b>1,41,375</b>	<b>17.67</b>	<b>2,14,350</b>	<b>17.86</b>

# Advantages of Common Size Statement

- It is very easy to understand in one look.
- It helps to develop a time series and its analysis of each element of financial statement
- Very easy to compare inter-firm as well as intra-firm performance and financial positions with the help of common size statement.

# Limitations of Common Size Statement

- It doesn't depict the effect of change in the price level of different elements like raw material, wages, etc. which leads to increase or decrease in the cost of goods sold (COGS) value , expenses, etc.
- If accounting standards applied or methods of accounting is changed between for different years or if these are different firms then it doesn't provide a true comparison.
- If there is huge profit or loss due to seasonal fluctuation or business cycles then it doesn't provide a true comparison.



आ नो भद्राः क्रतवो यन्तु विश्वतः ।

Let noble thoughts come to us from every side.