A Study on Financial Performance: Descriptive Study

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Abstract

This study aims to describe the financial performance. The main aim of this study is to study the financial performance. The performance evaluation of any organization is depending upon the final accounts prepared and published by the organization. Performance evaluation of any organization is varying similar to the concept of checking human body. As we need medical check up and routine examination for our bodies to maintain our fitness, likewise the performance appraisal of any organization is needed periodically as well as regularly.

Key Words: Financial Performance.

Introduction

> **"Finance is a specialized function field found under the general classification of business administration."**
> **John Hampton, 2014**

Concept of Financial Performance

Finance is regarded as the life **'blood'** of a business enterprise. This is because in the modern money - oriented economy, finance is one of basic foundations of all kinds of economic activities. It is the master key which provides access to all the sources for being employed in manufacturing and merchandizing activities. It has rightly been said that business needs money to make more money. However, it is also true that money be gets more money, only when it is properly managed. Hence, efficient management of every business enterprise is closely linked with efficient management of its forces.

Finance comes directly from the Latin word "finis". In general, finance may be defined as the provision of money at the time it is wanted. However, as a management function it has a special meaning. Finance function may be defined as the procurement of funds and their effective utilization. Some of the authoritative definitions are as follows:

"Business finance can broadly be defined as the activity concerned with planning, raising. Controlling and administrating of the funds used in the business."

Sudarsana Reddy, 2010

What is financial statement?

"Financial Statements refers to statements that show the financial position and results of business activities at the end of the accounting period." (**Agarwal. R. K, 2013**)

Financial information contained in the financial statements, which is obviously emerged as new dimension. So, it is better to exercise what the term financial statement is?

Although, any formal statements expressed in money values might be thought of as financial statements, the term has come to be limited by most accounting and business writers to me the 'balance sheet' and the 'profit and loss statement'. The balance sheet is also known as "Statement of condition", statement of financial position, Statement of assets and liabilities, statement of resources and Liabilities, statement of assets, liabilities and capital and statement or worth.

The profit and loss account is “the condensed and classified record of the gains and losses causing changes in the owner's interest in the business for a period of time."

Financial statement is not defined in the Companies Act, 1956. However, the term financial statement, as used in modem management, refers to the balance sheet, the profit and loss account and the statement of retained earnings.

Financial statements contain the Balance Sheet and the Profit and Loss Account the important reports of a corporate entity. The fundamental objective of financial statements is to communicate information on the discharge of accountability of an entity to various parties to whom the entity is accountable.

A significant change has taken place over the years in the process of financial planning and control. "Rule of Thumb" method and practice are being replaced with a detailed analysis with the help of better techniques. Here, appears to be a serious gap between the available theory and practices followed by the Indian industry. The theory of financial management advocates the objective of maximization of shareholder’s wealth. At the same time, the Indian industry does not seem to have accepted the above. Despite voluminous literature, which has been built upon financial ratio analysis, the principles of such analysis have lacked scientific character. They have been based more on subjective feeling, convention and belief than on clear empirical evidence. A very little progress has been made in empirical testing of financial ratios with a view highlighting which of financial ratios really reflect a firm's state of financial health its chance of survival or failure.

Analysis of financial statements is an attempt to assess the efficiency and performance of an enterprise. Thus, the analysis and interpretation of financial statements is very essential to measure the efficiency, profitability, financial soundness and future prospects of the business units. Financial analysis serves the following purposes:

A) Measuring the profitability: The main objective of a business is to earn a satisfactory return the funds invested in it. Financial analysis helps in ascertaining whether adequate profits are being earned on the capital invested in the business or not. It also helps in knowing the capacity to pay the interest and dividend.

B) Indicating the trend of Achievements: Financial statements of the previous years can be compared and the trend regarding various expenses, purchases, sales, gross profits and net profit etc. can be ascertained. Value of assets and liabilities can be some the future prospects of the business can be envisaged.

C) Assessing the growth potential of the business: The trend and other analysis of the business provide sufficient information indicating the growth potential of the business.

D) Comparative position in relation to other firms: The purpose of financial statement analysis is to help the management to make a comparative study of the profitability of various firms engaged in similar businesses. Such comparison also helps the management to study the position of their firm in respect of sales, expenses, profitability and utilizing capital, etc.

E) Assess overall financial strength: The purpose of financial analysis is to assess the financial strength of the business. Analysis also helps in taking decisions, whether funds required for the purchase of new machines and equipment's are provided from internal sources of the business or not if yes, how much? and also to assess how much funds have been received from external sources.

F) Assess solvency of the firm: The different tools of an analysis tell us whether the firm has sufficient funds to meet its short term and long term liabilities or not.

Objectives

This exercise involves judgment in respect of:

(a) A study of the relationships among the various figures incorporated in the Financial statements; and

(b) A study of factors reflected by the figures in series of financial statements.

Methodology

The study is descriptive in nature. Secondary data were use to collect the information of financial performance.

Review Literature

S.No	Author	Year	Objectives	Key Findings
1.	Lingesiya Kengatharan	2016	The main aim of research is to demonstrate unearth gaps in the existing capital budgeting practices literature and to suggest the directions for the future research.	• The findings of the study revealed that majority of Journals were published on capital budgeting the last two decades. The reminder of the research papers appeared in many journals. Capital budgeting is thus multi-disciplinary applied discipline aspects and across many discipline.
2.	Ramesh, S., & Nimalathasan, B	2014	The objectives of the study were: **1.** To Investigate industry / sector – to – industry / sector differences in capital budgeting techniques in selected units; and **2.** To assess the efficiency of capital budgeting techniques in these units.	• The results show that NPV method is the most dominant capital budgeting technique according to the perception of executives of all sectors. • It has been found that the executives mostly prefer NPV and IRR methods of capital budgeting from the companies of the manufacturing, pharmaceutical and chemical sectors, whereas the executives of the textile sector prefer the NPV method of evaluating capital budgeting.
3.	Ali Mohamed Ali Farah, Zelha Altinkaya	2018	The objectives were: • To assess how acquisition of long term assets affect the profitability of manufacturing	• The results reveal that capital budgeting decisions have a great contribution to the profitability of the organization. The chapter also presented and highlighted the Results from the analysis

			firms, secondly to assess how replacing of long-term assets affect profitability of manufacturing firms.	process • The study revealed that acquisition of long-term assets, replacement of long term assets, capital budgeting techniques and outsourcing expenditure had a significant effect on profitability of the organizations.
4.	Rogerio Joao Lunkes et al	2015	This study aims to analyze the capital budgeting practices used in port company in Brazil and another in Spain from a comparative perspective. To meet this objective an empirical research was conducted to study these two parts and a questionnaire was administered to collect data.	• The results showed that the Brazilian port uses only the internal rate of return for capital budgeting analysis combined with the random rate to determine the minimum acceptable return and scenario analysis assess investment risks. • The study showed that the Spanish port, compared to the Brazilian one, uses methods, including payback, internal rate of return, net present value, real options valuation, and weighted average capital cost to determine the minimum rate of return, and scenario and sensitivity analyses, Simulation and decision tree to assess investment risks.
5.	Magdalene Peter & R. Kausalya	2017	The objectives of the research is to study on the company's forecasting decision through capital	• The results of the study highlighted that the current year (2015) PBP is found to be I year. This shows that the company recovers its

			budgeting technique through which the importance of capital budgeting in an organization and to analyze the capital budgeting process to be adopted by the company in order to take better investment decisions for various business projects.	investment in 1 year. • The study concluded that the planning process which is used to determine whether the long term investments of an organization such replacement machinery, products that are new, new plants and research development projects are worth seeking is the Investment appraisal or capital budgeting .

Limitations

1. The study completely based on secondary data like articles, journals, which already has its own limitations.
2. The study can also be analytical in nature.

Scope for Future Research

1. Analytical study can also be done on the financial performance in different sectors.
2. Further research can be done on all the components of financial performance and its barriers.

Conclusion

Financial performance analysis is the process of identifying the financial strengths and weakness of the business by properly establishing relationships between the items of the Balance Sheet and the Profit and Loss Account. Financial Performance analysis can be under taken by management of the business-like owners, creditor's investors and others. The nature of analysis will differ depending on the purpose of the analyst. Financial performance analysis is a scientific evaluation of the profitability, efficiency and soundness of any business concern performance analysis and financial statement analysis have the similar meaning and both are generally used as synonymous. The management decision making process or planning process starts for the analysis of financial performance. After preparation of the financial statements the performance analysis takes place in any business concern. The analysis of financial performance is an attempt made to help the preparation of the most profitable design of promising alternatives and aid in selecting the analysis looks at the projected as well as past performance.

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