

$$\text{Net Profit} \Rightarrow \text{Operating Profit} + \text{Non operating Profit}$$

$$\text{Operating Income / Gross Profit} \Rightarrow \text{Sales} - \text{Cost of Goods Sold}$$

$$\text{Operating Profit} \Rightarrow \text{Operating Income / Gross Profit} - \text{Operating Expenses}$$

$$\Rightarrow \text{Sales} - \text{Cost of Goods Sold} - \text{Operating Expenses}$$

$$\text{Total Operating Profit} \Rightarrow \text{Operating Profit} + \text{Non operating Income}$$

$$\Rightarrow \text{Sales} - \text{CGS} - \text{OP Exp} + \text{Non op Inc}$$

$$\text{Net Profit} \Rightarrow \text{Total Operating Profit} - \text{Non operating Expenses}$$

$$= \text{Sales} - \text{CGS} - \text{OP Exp} + \text{Non op Income} - \text{Non op Expenses}$$

## **Techniques or Tools of Financial Statement**

The most important techniques of analysis of financial statement are listed below :

### **1. Comparative Statement**

In Comparative statement, figures for two or more periods are placed side by side to facilitate comparison. The comparative balance sheet shows the value of assets and liabilities on two different dates. It has two columns to record the figures of the current year and the previous year. A third column is used to show the increase or decrease in figures. A fourth column may be added for giving percentage of increase or decrease. A comparative income statement shows the operating results for a number of accounting periods so as to facilitate comparison. It has two columns for the figures of the current year and previous year. A third column is used to show the increase or decrease in figures. A fourth column may be added for giving percentage of increase or decrease.

### **2. Common Size Statement**

In common size statement, figures are converted into percentage of some common base. The statements which report the figures as a percentage of some common base are called common size statement. Sales is taken as the common base in the common size income statement. All expenses are recorded as a percentage of sales. In the common size balance sheet, total of assets or liabilities is taken as the common base. Each item is expressed as a percentage of the total.

### **3. Trend Analysis**

Trend analysis is very helpful in making a comparative study of the financial statements of several years. Under this technique, information for a number of years is taken up and one year (usually the first year) is taken as base year. Each item of the base year is taken as 100 and on that basis, the percentage for other years are calculated.