

II. Common-size Financial Statements

Organizations differ from each other on the basis of attitude, period of establishment, quality of personnel and many other factors. Where the financial statements are presented in rupee terms, we are showing the components of the statements in absolute terms. Therefore, they are not fit for comparison. In order to convert the financial statements in relative terms, we prepare common-size financial statements.

Common-size financial statements are those in which figures are converted to some common base. Items in the financial statements are presented as percentages or ratios to total of these items and a common base for comparison is provided.

Common-size Income Statement- In such a statement, sales figure is assumed to be equal to 100 and all other figures of cost or expenses are expressed as percentage of sales.

$$\text{Formula: } \frac{\text{item}}{\text{sales}} \times 100$$

Common-size Balance sheet- in such a statement, total assets or total liabilities is considered equal to 100 and all the figures are expressed as percentage of the total. Comparative Common-size balance sheet for different periods helps to highlight the trends in different items. If it is prepared for different firms in an industry, it facilitates to judge the relative soundness and helps in understanding their financial strategy.

$$\text{Formula: } \frac{\text{item}}{\text{Total Assets}} \times 100$$

Problems :

1. From the following data, prepare a common size income statement of Godrej Ltd for the year ending 31/03/20

	Rs.		Rs.
Sales	4,00,000	Cost of material	1,20,000
Wages	70,000	Factory expenses	30,000
Office & Admn exp	12,500	Selling Exp	13,600
Interest paid	8,000	Tax rate	35%

Solution:

Godrej Ltd

Common-size Income Statement for the period ended 31-3-2020

Particulars	Rs.	$\frac{\text{item}}{\text{sales}} \times 100$	Value in %
-------------	-----	---	------------

Sales	4,00,000	$\frac{4,00,000}{4,00,000} \times 100$	100
(-) Material Cost	1,20,000	$\frac{1,20,000}{4,00,000} \times 100$	30
(-) Wages	70,000	$\frac{70,000}{4,00,000} \times 100$	17.5
Contribution	2,10,000	$\frac{2,10,000}{4,00,000} \times 100$	52.5
(-) Factory Expenses	30,000	$\frac{30,000}{4,00,000} \times 100$	7.5
(-) Office & Admn Exps	12,500	$\frac{12,500}{4,00,000} \times 100$	3.125
(-) Selling Expenses	13,600	$\frac{13,600}{4,00,000} \times 100$	3.4
EBIT	1,53,900	$\frac{1,53,900}{4,00,000} \times 100$	38.48
(-) Interest	8,000	$\frac{8,000}{4,00,000} \times 100$	2
EBT	1,45,900	$\frac{1,45,900}{4,00,000} \times 100$	36.475
(-) Tax @ 35%	51,065	$\frac{51,065}{4,00,000} \times 100$	12.77
EAT	94,835	$\frac{94,835}{4,00,000} \times 1000$	23.708

2. The Diplomat Ltd presents its statements of income for the years ending 31/3/2017 & 2018 respectively. Prepare common size income for the two years.

Statements of Income for the year ending 31st March 2017 & 2018

Particulars	March 31 st 2017	March 31 st 2018
	Rs.	Rs.
Sales	12,00,000	10,00,000
(-) Cost of Goods sold	8,00,000	7,25,000
(-) Interest paid	65,000	40,000
(-) Disc on issue of Debs written off	5,000	5,000
(-) Depreciation	20,000	30,000
Profit Before Tax	3,10,000	2,00,000
(-) Provision for Tax	95,000	80,000
Profit after Tax	2,15,000	1,20,000

Solution:

The Diplomat Ltd.

Common- size Income Statements for the years 2017 & 2018

Particulars	31 st March 2017	Value in %	31 st March 2018	Value in %
	Rs.	$\frac{\text{item}}{\text{sales}} \times 100$	Rs.	$\frac{\text{item}}{\text{sales}} \times 100$
Sales	12,00,000	100	10,00,000	100
(-) Cost of goods Sold	8,00,000	66.67	7,25,000	72.5
EBITDA	4,00,000	33.33	2,75,000	27.5
(-) Depreciation	20,000	1.67	30,000	3
(-) Disc on issue of Debs written off	5,000	0.417	5,000	0.5
EBIT	3,75,000	31.25	2,40,000	24
(-) Interest	65,000	5.42	40,000	4
EBT	3,10,000	25.83	2,00,000	20
(-) Provision for tax	95,000	7.92	80,000	8
EAT	2,15,000	17.92	1,20,000	12

3. The Summarized Profit & Loss a/c & Balance Sheet of Khanna Ltd as on 31-12-2018 is given below. Prepare the Common size Income statement & Position Statement.

Profit & Loss a/c for the year ended 31-12-2018

Particulars	Rs.	Particulars	Rs.
To Opening stock	2,48,000	By Sales	9,00,000
To Purchases	3,22,000	By Closing Stock	2,00,000
To Wages	2,30,000		
To Gross Profit c/d	3,00,000		
	11,00,000		11,00,000

To Office O/hs	1,00,000	By Gross Profit b/d	3,00,000
To Selling Exps.	40,000		
To Depreciation	35,000		
To Net Profit c/d	1,25,000		
	3,00,000		3,00,000

Balance Sheet as on 31-12-2018

Liabilities	Rs.	Assets	Rs.
Share Capital	3,00,000	Land & Building	1,70,000
Reserves	1,00,000	Plant & Machinery	2,10,000
Profit & Loss a/c	2,80,000	Stock	1,10,000
Creditors	40,000	Debtors	2,20,000
		Cash	10,000
	7,20,000		7,20,000

Solution:

Khanna Ltd

Common size Income Statement for the year ending 31-12-2018

Particulars	Rs.	$\frac{\text{item}}{\text{sales}} \times 100$	Value in %
Sales		$\frac{9,00,000}{9,00,000} \times 100$	100
(-) Material Cost (op stock +purchases-clo.stock)	9,00,000 3,70,000	$\frac{3,70,000}{9,00,000} \times 100$	41.11
(-) Wages		$\frac{2,30,000}{9,00,000} \times 100$	25.55
Contribution	2,30,000	$\frac{3,00,000}{9,00,000} \times 100$	33.33
(-) Office & Admn Exps	3,00,000	$\frac{1,00,000}{9,00,000} \times 100$	11.11
(-) Selling Expenses	1,00,000	$\frac{40,000}{9,00,000} \times 100$	4.44
EBITDA	40,000	$\frac{9,00,000}{9,00,000} \times 100$	17.77
(-) Depreciation	1,60,000 35,000	$\frac{1,60,000}{9,00,000} \times 100$ $\frac{35,000}{9,00,000} \times 100$	3.88
EBIT	1,25,000	$\frac{1,25,000}{9,00,000} \times 100$	13.88

Common Size balance Sheet as on 31-12-2018

Equities & Liabilities	Rs.	$\frac{\text{Value in \% item}}{\text{Total Assets}} \times 100$
Shareholder's Funds:		
Share Capital	3,00,000	41.67
Reserves	1,00,000	13.88
Profit & Loss a/c	2,80,000	38.88
Current Liabilities:		
Creditors	40,000	5.55
Total	7,20,000	100
Assets	Rs.	$\frac{\text{Value in \% item}}{\text{Total Assets}} \times 100$
Non-Current Assets		
Land & Building	1,70,000	23.61
Plant & Machinery	2,10,000	29.16
Current Assets		
Stock	1,10,000	15.27
Debtors	2,20,000	30.55
Cash	10,000	1.38

Total	7,20,000	100
-------	----------	-----

4. From the following Trial Balance of Agri Grow Co. prepare the Common Size financial statements:

Debit Balances	Rs.	Credit Balances	Rs.
Land & Buildings	45,000	Authorised capital	6,00,000
Machinery	25,000	Subscribed capital	1,00,000
Furniture	5,000	Sales	2,00,000
Wages	16,000	Creditors	13,000
Salaries	34,000	Share premium	5,000
Rents & Rates	12,000	General Reserve	16,000
Purchases	60,000		
General Expenses	9,000		
Debtors	72,000		
Opening stock	35,000		
Cash at bank	10,000		
Cash in hand	11,000		
	3,43,000		3,43,000

Adjustments:

- Closing Stock Rs. 50,000
- Charge Depreciation on Land & Buildings at 5%, Machinery at 8% and Furniture at 10%.

Solution:

Agri Grow Co.
Common size Income Statement for the year ending

Particulars	Rs.	Value in % $\frac{\text{item}}{\text{sales}} \times 100$
Sales	2,00,000	100
(-) Material Cost (op stock +purchases-clo.stock)	45,000	22.5
(-) Wages	16,000	8
Contribution	1,39,000	69.5
(-) Office & Admn Exps (salaries+ rents & rates+ Gen. exp)	55,000	27.5
EBITDA	84,000	42
(-) Depreciation		
Land & Building (45,000x5%)		
2,250	4,750	2.375
Machinery (25,000 x 8%)		
2,000		
Furniture (5,000 x 10%)		
500		
EBIT	79,250	39.625

Agri Grow Co.
Common Size Balance Sheet as on

Equities & Liabilities	Rs.	Value in % $\frac{\text{item}}{\text{Total Assets}} \times 100$
Shareholder's Funds:		
Eq.Share Capital	1,00,000	46.89
Reserves & Surplus		
(Reserves + Share premium + EBIT)	1,00,250	47.01
Current Liabilities:		
Creditors	13,000	6.09

Total	2,13,250	100
Assets	Rs.	Value in % <i>item</i> $\frac{\text{Total Assets}}{\text{Total Assets}} \times 100$
Non-Current Assets:		
Land & Building (45,000- 2,250)	42,750	20.05
Machinery (25,000- 2,000)	23,000	10.79
Furniture (5,000-500)	4,500	2.11
Current Assets		
Stock	50,000	23.45
Debtors	72,000	33.76
Cash in hand	10,000	4.69
Cash at Bank	11,000	5.16
Total	2,13,250	100