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A Study on Financial Performance Analysis Tools With Reference to IFRS

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Abstract: **This paper consists of matter such as Financial Performance Analysis Tools and IFRS (International Financial Reporting System). Here we can see that whether the Analaysistools and the IFRS has any relations. It explains the reference of IFRS on the financial performance analysis tools. Let's see the reference of this subject in the tools such as balance sheet, statement of earnings, statement of changes in financial position and Cash flow statement.**

I. INTRODUCTION

Let us see what is meant by the term Financial Statement and its tools, and also the International Financial Reporting System.

"A Financial Statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show assets position at a moment of time as in the case of balance sheet, or may reveal a series of activities over a given period of times, as in the case of an income statement."

The financial statements include Income statement, Balance sheet, Statement of earnings, Statement of changes in financial position and the Cash flow statement.

International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board, and they specify exactly how accountants must maintain and report their accounts. IFRS were established in order to have a common accounting language, so business and accounts can be understood from company to company and country to country.

The objective of this IFRS is to ensure that an entity's first IFRS financial statements, and its interim Financial reports for part of the period covered by those financial statements, contain high quality
Information that:

(a) Is transparent for users and comparable over all periods presented;

(b) Provides a suitable starting point for accounting in accordance with International FinancialReporting Standards (IFRSs); and

(c) Can be generated at a cost that does not exceed the benefits.

Some of the Accounting Standards have been made as per the IFRS. We are following these procedures not only in India but also in other part of the world. And also it is an internationally accepted accounting rules and regulations.

II. THE IFRS WITH ACCOUNTING:

In line with the global trend, the Institute of Chartered Accountants of India, has proposed a plan for convergence of the Indian Accounting Standards with the International Financial Reporting Standards.

A list of 35 Indian Accounting Standards (Ind Ass) as developed and finalized by the Institute of Chartered Accountants of India, approved by the National Advisory Committee on Accounting Standards and notified by the Ministry of Corporate Affairs (MCA) is as under:

Ind AS 1 : Presentation of Financial Statements
Ind AS 2 : Inventories
Ind AS 7 : Statement of Cash Flows
Ind AS 8 : Accounting Policies, Change in Accounting Estimates and Errors
Ind AS 10 : Events after the Reporting Period.
Ind AS 11 : Construction Contracts
Ind AS 12 : Income Tax
Ind AS 16 : Property, Plant and Equipment
Ind AS 17 : Leases
Ind AS 18 : Revenue

Ind AS 19 : Employee Benefits
Ind AS 20 : Accounting for Government Grants and Disclosures of Government Assistance.
Ind AS 21 : The Effects of Change in Foreign Exchange Rates.
Ind AS 23 : Borrowing Costs
Ind AS 24 : Related Party Disclosure
Ind AS 27 : Consolidated and Separate Financial Statements
Ind AS 28 : Investment in Associates
Ind AS 29 : Financial Reporting in Hyperinflationary Economies
Ind AS 31 : Interest in Joint Ventures
Ind AS 32 : Financial Instruments : Presentation
Ind AS 33 : Earning per Share
Ind AS 34 : Interim Financial Reporting
Ind AS 36 : Impairment of Assets
Ind AS 37 : Provisions, Contingent Liabilities and Contingent Assets
Ind AS 38 : Intangible Assets
Ind AS 39 : Financial Instruments : Recognition and Measurement
Ind AS 40 : Investment Property
Ind AS 101: First-time Adoption of Indian Accounting Standards
Ind AS 102: Share-based Payment
Ind AS 103: Business Combinations
Ind AS 104: Insurance Contracts
Ind AS 105: Non-current Assets Held for Sale and Discontinued Operations
Ind AS 106: Exploration for and Evaluation of Minerals Resources
Ind AS 107: Financial Instruments: Disclosures
Ind AS 108: Operating Segments

III. IFRS WITH FINANCIAL RATIOS:

Financial ratios are the tools that help to understand about the financial postion of the company. It helps in clearly understanding the position, asset rate, turn over of the company. It could finalize or gave a clear picture about the company to the public.

Here also IFRS plays its own role. IFRS helps in taking the accounting statemwents and other financial satements to sn different levels. It gaves an international standards to the financial statements. We can be sure of the conditions prevailing.

The Ratios can be classified into three as per functionality. They are:

- ❖ Financial ratios.
- ❖ Turnover ratios.
- ❖ Profitability ratios.

A. *Financial ratios:*

Financial ratios indicate the financial position of the company. A company is deemed to financially sound if it is in a position to carry on its business smoothly and meet all its obligations- both long-term as well as short term without strain. Thus, its financial position has to be judged from two angles – long term as well as long term. It is a sound principle of finance that long term requirements of funds should be met out of long-term funds and short-term requirements should be met out of short-term funds.

B. *Turnover ratios:*

The turnover ratios or activity ratios indicate the efficiency with which the capital employed is rotated in the business. The overall profitability of the business depends on two factors:

i. The rate of return of capital employed.
ii. The turnover, i.e., the speed at which the capital employed in the business rotates.

C. *Profitability ratios:*

Profitability is an indication of the efficiency with which the operations of the business are carried on. Poor operational performance may indicate poor sales and hence poor profits. A lower profitability may arise due to the lack of control over the expenses. Bankers, financial institutions and other creditors look at the profitability ratios as an indicator whether or not the firms earns substantially more than it pays interest for the use of borrowed funds and whether the ultimate repayment of their debt appears reasonably certain. Owners are interested to know the profitability as it indicators the return which they can get on their investments.

IV. IFRS WITH OTHER STATEMENTS:

- ❖ The other statements include:
- ❖ Comparative financial statements
- ❖ Common size statements
- ❖ Trend Percentages
- ❖ Fund flow Analysis
- ❖ Cost-Volume-Profit Analysis

A. *Comparative financial statements:*

Comparative financial statements are those statements which have been designed in away so as to provide time perspective to the consideration of various elements of financial position embodied in such statements. In these statements figures for two or more periods are placed side by side to facilitate comparison.
Both the income Statement and balance sheet can be prepared in the form of Comparative Financial Statements.

B. Common-size financial statements:

Common-size Financial Statements are those in which figures reported are converted into percentages to some common base. In the Income Statement the sale figure is assumed to be 100 and all figures are expressed as a percentage of this total. The comparative common-size financial statements show the percentage of each item to the total in each period but not variations in respective items from period to period. In other words, common-size financial statements when read horizontally do not give information about the trend of individual items but the trend of their relationship to total.

C. Trend Percentages:

Trend percentages are immensely helpful in making a comparative study of the financial statements for several years. The method of calculating trend percentages involves the calculation of percentage relationship that each item bears to the same item in the base year. Any year may be taken as the base year, It is usually the earliest year. Any intervening year may also be taken as the base year. Each item of base year is taken as 100 and on that basis the percentages for each items of each of the years are calculated. These percentages can also be taken as Index Numbers showing relative changes in the financial data resulting with the passage of time.

The method of trend percentages is a useful analytical device for the management since by substituting percentages for larger amounts, the brevity and readability are achieved. However, trend percentages are not calculated only for all of the items since the purpose is to highlight important changes.

D. Fund flow analysis:

Funds flow analysis has become an important tool in the analytical kit of financial analysis, credit granting institutions and financial managers. This is because the Balance Sheet of a business revealsits financial status at a particular point of time. It does not sharply focus those major financial transactions which have been behind the balance sheet changes. However, a financial analyst must know the purpose for which the loan was utilised nad the source from which it was obtained. This will help him in making a better estimate about the company's financial position and policies.
Fund flow analysis reveals the changes in working capital position. It tells about the sources from which the working capital was obtained and the purpose for which it was used. It brings out in open the changes which have taken place behind the Balance Sheet. Working capital being the life blood of the business, such an analysis is extremely useful.

E. Cost-volume-profit analysis:

Cost-Volume-Profit Analysis is an important tool of profit planning. It studies the relationship between costs, volume of production, sales and profit. Of course, it is not strictly a technique used for analysis of financial statements. However, it is an important tool for the management for decision making since the data is provided by both cost and financial records. It tells the volume of sales at which the firm will break-even, the effect on profit on account of variation in output, selling price and cost, and finally, the quantity to be produced and sold to reach the target profit level.

V. CONCLUSION:

It includes how the financial statements are influenced by the IFRS. IFRS has its impact on the financial performance analysis tools. The tools include

- Ratios analysis,
- Comparative financial statements,
- Common-size financial statements,
- Fund flow analysis, Etc.

At the last we can say that IFRS helped in changing the outlook of the financial statements a part in the international context.

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