

# Case study on income statement

Business, Company



Wage expenses and miscellaneous expenditure: The wage expense for the year X0 is arrived at by deducting the depreciation and miscellaneous expenses from the total operating expenditure. The Wage expenses for the 5 years, X1 through X5 are calculated by adding up a certain assumed percentage to the wage expense of the year X0. Similarly, the miscellaneous expenditures for the 5 years, X1 through X5 are calculated by adding up a certain assumed percentage to the wage expense of the year X0. This assumed percentage remains constant throughout 5 years. The percentage assumed to calculate the wage expenses and miscellaneous expenditure for the years following X0 is 4%. Considering the growth rate of sales each year and the purchase of additional plant and equipment in the X1 year there shall be a subsequent increase in the depreciation expense and the wage expense. Therefore to provide a consequent effect after such increase in sales and purchase of fixed assets on the relevant expenditures, the assumed percentage is set at 4%, for the purpose of calculating wage and miscellaneous expenses.

Balance sheet: The accounts receivables, Other assets, Accounts Payables and Other Current Liabilities for the 5 years starting X1 through X5 are arrived at by adding a certain assumed percentage to the respective items in the year X0. When the assumed percentage is set at 8%, the liquidity of the firm becomes stronger. A firm with a moderate amount of current assets and liabilities can afford to strike the right kind of balance with its liquidity status in the market. Maintaining an appropriate liquidity status works wonders for the margin of safety of the company with regards to its repayment of short term loans. This not only earns a good reputation for the company regarding

its capability to pay off its short term loans but also adds to its credibility in the view of its investors and creditors.

Financial analysis of the company for the period ended Spring 2012: Apart from making considerably good profits for the period the company's earnings per share also stands at a decent point i. e. 0. 40. A good value of earnings per share reflects the profitability of the company. Also, the company reports a healthy current ratio of 5 for the period which affirms the company's ability to pay off its short term liabilities with the cash or short term assets available currently. A current ratio which is as good as 5 also articulate the company's efficient operating cycle. The receivable turnover of the firm which stands at 10 reflects the company's efficacy in maintaining its assets. The higher the receivable turnover ratio is the better for the firm and its credibility.

The company's profit margin ratio lies at 19%, which shows a very effective control of the company over its costs. A reasonably good amount of control over costs enhances the effective utilization of the profits available to the company. The company's rate of return on equity stands at 15. 35% which is a desirable rate by any company. This ratio defines the company's capability in using the available venture funds of the common stock holders in producing the earnings growth for the company.

Going by the few ratios as discussed above, which depict the profitability, liquidity and firm's capability in utilizing the investments made by the investors, the company's stance as a potential investment option seems to be very enticing. Not only the credibility of the company with regards to loan repayment is impressive but also, its projected ratios and earnings for the coming years also seem to be very convincing. Such projections of profits

and expansions (purchase of fixed assets) ensure the maximum possible market value of the stock. The matter of serious concern for any prospective investor would be the company's profitability and its ability to retain a justifiable amount from its profits to make a constructive reinvestment for further expansion of the business. The above ratios discussed ensure the two major concerns of any prospective investor.