

A Case Analysis of Financial Performance of AOS System with the help of Ratio Analysis

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Abstract

The research paper is on the analysis of the financial performance of the AOS system with the help of ratio analysis. The practice of ratio analysis has been used by financial market participants and managers of firms for almost a century. Ratio analysis become very essential for all the organisation to survive in the market for a longer period. The research is expected to help understanding the overall financial performance of the AOS systems. We have analyzed the accounting information of the company through ratios and construed in such a way that can be easily understood by all.

Key Words: Comparative analysis, ratio analysis, accounting analysis.

Introduction

The two primary objectives of every business are profitability and solvency. Profitability is the ability of a business to make profit, while solvency is the ability of a business to pay debts as they come due. To take the right decision at the right time executives should know the financial position of the organization. Without which it is not easy to take any type of action for the expansion and augmentation of the organization. Through financial information an executive can take imperative decision as and when they are required. For studying the financial health and having accurate financial information of a business, ratio analysis is being considered as the major tool at present. Correct financial information at the appropriate time is of paramount importance for any organization for efficient usage of resources. According to Igben (1999:423), "Accounting or financial ratio is a proportion or fraction or percentage expressing the relationship between one item in a set financial statements and another item in the financial statements. Accounting ratios are the most powerful of all tools used in analyzed and interpreting financial

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statements". Therefore, ratio analysis involves taking stats of number (or items) out of financial statements and forming ratios with them, to enhance informed judgments and decisions.

AOS Systems

At AOS SYSTEMS, we strive to understand changing customer needs, and enrich their quality of life by simply making technology readily usable for them. Our innovative, value-added products improve the quality of life of people in India and help them enjoy longer, hygienic, healthier, and more productive lives. We are an ISO certified company, manufacturing, selling and providing after sales service of new generation sensor products for bathrooms. We have a reputation for speed, accuracy and freedom from bias. Our powerful combination of skills and resources provides a platform for delivering convenience and pleasure in today's rapidly changing sensor bath products environment. Amidst this, our diverse, highly skilled, dedicated and committed work force stands tall. As a company and as individuals, we continue to take great pride in a commitment to community partnerships, social responsibility and environmental excellence.

Constellation of Products, at Vantage Points

A constellation of products adorn AOS SYSTEMS' portfolio. These comprise elegantly crafted Robo Auto

Flush Systems for urinals and western closets and Doppler Automatic Water Taps. From our inception, we have an objective of providing best-in-the-class sensor products. We are totally committed to ensure highest quality standards and to understand changing customer needs. The products are installed at various luxury hotels, embassies, airports and MNCs.

Touching Tomorrow, with Vision

Headquarteres at New Delhi, AOS SYSTEMS' wide and national footprint enables it to reach clients, India wide. Our network of seven branches at AHMEDABAD, BANGALORE, CHENNAI, HUBLI, MUMBAI, PUNE and SECUNDERABAD amply justify it all. Our superior understanding of preferences enables us to provide products customized to distinctive preferences. Plus, our track record of developing creative and innovative products helps us expand and retain our client. Future vision includes exploring opportunities to become leaders in new and emerging technologies in sensor bath products and related industries at an appropriate time, either directly or through strategic partnerships or inorganic initiatives.

Ratio Analysis

The term "Ratio" refers to the numerical and quantitative relationship between two items or variables. This relationship can be exposed as

- Percentages
- Fractions
- Proportion of numbers

Ratio analysis is defined as the systematic use of the ratio to interpret the financial statements. So that the strengths and weaknesses of a firm, as well as its historical performance and current financial condition can be determined. Ratio reflects a quantitative relationship helps to form a quantitative judgment.

Steps in Ratio Analysis

- The first task of the financial analysis is to select the information relevant to the decision under consideration from the statements and calculates appropriate ratios.

- To compare the calculated ratios with the ratios of the same firm relating to the past or with the industry ratios. It facilitates in assessing success or failure of the firm.
- Third step is to interpretation, drawing of inferences and report writing conclusions are drawn after comparison in the shape of report or recommended courses of action.

Importance of Ratio Analysis

- Aid to measure general efficiency
- Aid to measure financial solvency
- Aid in forecasting and planning
- Facilitate decision making
- Aid in corrective action
- Aid in intra-firm comparison
- Act as a good communication
- Evaluation of efficiency
- Effective tool

Limitations of Ratio Analysis

- Differences in definitions
- Limitations of accounting records
- Lack of proper standards
- No allowances for price level changes
- Changes in accounting procedures
- Quantitative factors are ignored
- Limited use of single ratio
- Background is over looked
- Limited use
- Personal bias

Objectives

The major objectives of the resent study are to know about financial strengths and weakness of AOS SYSTEMS through FINANCIAL RATIO ANALYSIS.

The main objectives of resent study aimed as:

1. To evaluate the performance of the company by using ratios as a yardstick to measure the efficiency of the company.

2. To understand the liquidity, profitability and efficiency positions of the company during the study period.
3. To evaluate and analyze various facts of the financial performance of the company.
4. To make comparisons between the ratios during different periods
5. To study the present financial system at AOS SYSTEMS.
6. To determine the Profitability, Liquidity Ratios.
7. To analyze the capital structure of the company with the help of Leverage ratio.
8. To offer appropriate suggestions for the better performance of the organization.

Methodology

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying

how research is done scientifically. So, the research methodology not only talks about the research methods but also considers the logic behind the method used in the context of the research study.

Methodology used for data collection

The information is collected through secondary sources during the project. That information was utilized for calculating performance evaluation and based on that, interpretations were made.

Sources of secondary data:

1. Most of the calculations are made on the financial statements of the company provided statements.
2. Referring standard texts and referred books collected some of the information regarding theoretical aspects.
3. Method- to assess the performance of the company method of observation of the work in finance department in followed.

Analysis and Findings

Liquidity Ratio

1. Current Ratio

(Amount in Rs.)

Current Ratio			
Year	Current Assets	Current Liabilities	Ratio
2012	58,574,151	7,903,952	7.41
2013	69,765,346	31,884,616	2.19
2014	72,021,081	16,065,621	4.48
2015	91,328,208	47,117,199	1.94
2016 Till July	115,642,068	30,266,661	3.82

Table No. (1)

Interpretation

As a rule, the current ratio with 2:1 (or) more is considered as satisfactory position of the firm.

When compared with 2015, there is an increase in the provision for tax, because the debtors are raised and for that the provision is created. The current

liabilities majorly included AOS SYSTEMS for consultancy additional services.

The sundry debtors have increased due to the increase to corporate taxes.

In the year 2015, the cash and bank balance is reduced because that is used for payment of

dividends. In the year 2016, the loans and advances include majorly the advances to employees and deposits to government. The loans and advances reduced because the employees set off their claims. The other current assets include the interest attained from the deposits. The deposits reduced due to the

declaration of dividends. So the other current assets decreased.

The huge increase in sundry debtors resulted an increase in the ratio, which is above the benchmark level of 2:1 which shows the comfortable position of the firm.

2. Quick Ratio

(Amount in Rs.)

Quick Ratio			
Year	Quick Assets	Current Liabilities	Ratio
2012	58,574,151	7,903,952	7.41
2013	52,470,336	31,884,616	1.65
2014	69,883,268	16,065,620	4.35
2015	89,433,596	47,117,199	1.9
2016 Till July	115,431,868	30,266,661	3.81

Table No. (2)

Interpretation

Quick assets are those assets which can be converted into cash with in a short period of time, say to six months. So, here the sundry debtors which are with the long period does not include in the quick assets.

Compare with 2016, the Quick ratio is increased because the sundry debtors are increased due to the increase in the corporate tax and for that the provision created is also increased. So, the ratio is also increased with the 2016.

3. Absolute Liquidity Ratio

(Amount in Rs.)

Absolute Cash Ratio			
Year	Absolute Liquid Assets	Current Liabilities	Ratio
2012	31,004,027	7,903,952	3.92
2013	10,859,778	31,884,616	0.34
2014	39,466,542	16,065,620	2.46
2015	53,850,852	47,117,199	1.14
2016 Till July	35,649,070	30,266,661	1.18

Table No. (3)

Interpretation

The current assets which are ready in the form of cash are considered as absolute liquid assets. Here, the cash

and bank balance and the interest on fixed assets are absolute liquid assets.

In the year 2015, the cash and bank balance is

Leverage Ratios

4. Proprietary Ratio

(Amount in Rs.)

Proprietary Ratio			
Year	Share Holders Funds	Total Assets	Ratio
2012	67,679,219	78,572,171	0.86
2013	53,301,834	88,438,107	0.6
2014	70,231,061	89,158,391	0.79
2015	56,473,652	106,385,201	0.53
2016 Till July	97,060,013	129,805,102	0.75

Table No. (4)

decreased due to decrease in the deposits and the current liabilities are also reduced because of the payment of dividend. That causes a slight increase in the current year's ratio.

Interpretation

The proprietary ratio establishes the relationship between shareholders funds to total assets. It determines the long-term solvency of the firm. This ratio indicates the extent to which the assets of the company can be lost without affecting the interest of the company.

There is no increase in the capital from the year 2013. The share holder's funds include capital and reserves and surplus. The reserves and surplus is increased due to the increase in balance in profit and loss account, which is caused by the increase of income from services.

Total assets, includes fixed and current assets. The fixed assets are reduced because of the depreciation and there are no major increments in the fixed assets. The current assets are increased compared with the year 2015. Total assets are also increased than previous year, which resulted an increase in the current ratio than older.

Activity Ratios

5. Working Capital Turnover Ratio

(Amount in Rs.)

Working Capital Turnover Ratio			
Year	Income From Services	Working Capital	Ratio
2012	36,309,834	50,670,199	0.72
2013	53,899,084	37,880,730	1.42
2014	72,728,759	55,355,460	1.31
2015	55,550,649	44,211,009	1.26
2016 Till July	96,654,902	85,375,407	1.13

Table No. (5)

Interpretation

Income from services is greatly increased due to the extra invoice for Operations & Maintenance fee and the working capital is also increased greater due to the increase in from services

because the huge increase in current assets.

The income from services is raised and the current assets are also raised together resulted in the decrease of the ratio of 2016 compared with 2015.

6. Fixed Assets Turnover Ratio

(Amount in Rs.)

Fixed Assets Turnover Ratio			
Year	Income From Services	Net Fixed Assets	Ratio
2003	36,309,834	28,834,317	1.26
2004	53,899,084	29,568,279	1.82
2005	72,728,759	17,137,310	4.24
2006	55,550,649	15,056,993	3.69
2007	96,654,902	14,163,034	6.82

Table No. (6)

Interpretation

Fixed assets are used in the business for producing the goods to be sold. This ratio shows the firm's ability in generating sales from all financial resources committed to total assets. The ratio indicates the account of one rupee investment in fixed assets.

The income from services is greatly increased in the current year due to the increase in the Operations & Maintenance fee due to the increase in extra invoice and the net fixed assets are reduced because of the increased charge of depreciation. Finally, that effected a huge increase in the ratio compared with the previous year's ratio.

7. Capital Turnover Ratio

(Amount in Rs.)

Capital Turnover Ratio			
Year	Income From Services	Capital Employed	Ratio
2012	36,309,834	37,175,892	0.98
2013	53,899,084	53,301,834	1.01
2014	72,728,759	70,231,061	1.04
2015	55,550,649	56,473,652	0.98
2016 Till July	96,654,902	97,060,013	1.00

Table No. (7)

Interpretation

This is another ratio to judge the efficiency and effectiveness of the company like profitability ratio. The income from services is greatly increased compared with the previous year and the total capital employed

includes capital and reserves & surplus. Due to huge increase in the net profit the capital employed is also increased along with income from services. Both are effected in the increment of the ratio of current year.

8. Current Assets to Fixed Assets Ratio**(Amount in Rs.)**

Current Assets to Fixed Assets Ratio			
Year	Current Assets	Fixed Assets	Ratio
2012	58,524,151	19,998,020	2.93
2013	69,765,346	18,672,761	3.74
2014	72,021,081	17,137,310	4.20
2015	91,328,208	15,056,993	6.07
2016 Till July	115,642,068	14,163,034	8.17

Table No. (8)**Interpretation**

Current assets are increased due to the increase in the sundry debtors and the net fixed assets of the firm are decreased due to the charge of depreciation and there

is no major increment in the fixed assets.

The increment in current assets and the decrease in fixed assets resulted an increase in the ratio compared with the previous year.

9. Net Profit Ratio**(Amount in Rs.)**

Net Profit Ratio			
Year	Net Profit After Tax	Income from Services	Ratio
2012	21,123,474	36,039,834	0.59
2013	16,125,942	53,899,084	0.30
2014	16,929,227	72,728,759	0.23
2015	18,259,580	55,550,649	0.33
2016 Till July	40,586,359	96,654,902	0.42

Table No. (9)**Interpretation**

The net profit ratio is the overall measure of the firm's ability to turn each rupee of income from services in net profit. If the net margin is inadequate the firm

will fail to achieve return on shareholder's funds. High net profit ratio will help the firm service in the fall of income from services, rise in cost of production or declining demand.

The net profit is increased because the income from services is increased. The increment resulted a slight increase in 2016 ratio compared with the year 2015.

Summary

- 1) After the analysis of Financial Statements, the company status is better, because the Net working capital of the company is doubled from the last year's position.
- 2) The company profits are huge in the current year; it is better to declare the dividend to shareholders.

References

1. Igben, Robert O. (1999). Financial Accounting made simple. Lagos: Rol publishers.

- 3) The company is utilising the fixed assets, which majorly help to the growth of the organisation. The company should maintain that perfectly.
- 4) The company fixed deposits are raised from the inception, it gives the other income i.e., Interest on fixed deposits.

Conclusion

The company's overall position is at a good position. Particularly the current year's position is well due to raise in the profit level from the last year position. It is better for the organization to diversify the funds to different sectors in the present market scenario.