

CHAPTER 1

INTRODUCTION

1.1 Meaning and Concept of Financial Statement

Definition: Financial statement is the summary which depicts the financial position and performance of the business. They are prepared on monthly, quarterly, half-yearly or yearly basis. Financial statements usually include a balance sheet, income statement and statement of cash flows.

Financial statements are formal records of the financial activities and position of a business, person, or other entity. It is the summary which depicts the financial position and performance of the business. They are prepared on monthly, quarterly, half-yearly or yearly basis. Financial statements usually include a balance sheet, income statement and statement of cash flows.

Financial statements are the summary reports of the company's financial transaction or affairs prepared in order to present the financial performance and position at a point in time. In other words, financial statement is a collection of reports about an organization's financial results, financial condition, and cash flows.

The first step in developing a financial management system is the creation of financial statements. To manage proactively, you should plan to generate financial statements on a monthly basis. Your financial statements should include an income statement, a balance sheet and a cash-flow statement

Income Statement

Simply put, the income statement measures all your revenue sources vs. business expenses for a given time period. To help explain things easily, let's consider an apparel manufacturer as an example in outlining the major components of the income statement:

- **Income taxes:** This is the total amount of state and federal income taxes paid.
- **Net profit after taxes:** This is the "bottom line" earnings of the business. It's computed by subtracting taxes paid from net income before taxes.
- **Balance Sheet:** The balance sheet provides a snapshot of the business's assets, liabilities and owner's equity for a given time. Again, using an apparel manufacturer as an example, here are the key components of the balance sheet:
 - **Sales:** This is the gross revenue generated from the sale of clothing less returns (cancellations) and allowances (reduction in price for discounts taken by customers).
 - **Cost of goods sold:** This is the direct cost associated with manufacturing the clothing. These costs include materials used, direct labor, plant manager salaries, freight and other costs associated with operating a plant (for example, utilities, equipment repairs, etc.).
 - **Current assets:** These are the assets in a business that can be converted to cash in one year or less. They include cash, stocks and other liquid investments, accounts receivable, inventory and prepaid expenses. For a clothing manufacturer, the inventory would include raw materials (yarn, thread, etc.), work-in-progress (started but not finished), and finished goods (shirts and pants ready to sell to customers).

- **Fixed assets:** These are the tangible assets of a business that won't be converted to cash within a year during the normal course of operation. Fixed assets are for long-term use and include land, buildings, leasehold improvements, equipment, machinery and vehicles.
Intangible assets: These are assets that you cannot touch or see but that have value. Intangible assets include franchise rights, goodwill, noncompeting agreements, patents and many other items.
- **Other assets:** There are many assets that can be classified as other assets, and most business balance sheets have an "other assets" category as a catchall. Some of the most common other assets include cash value of life insurance, long-term investment property and compensation due from employees.
- **Current liabilities:** These are the obligations of the business that are due within one year. Current liabilities include notes payable on lines of credit or other short-term loans, current maturities of long-term debt, accounts payable to trade creditors, accrued expenses and taxes (an accrual is an expense such as the payroll that is due to employees for hours worked but has not been paid), and amounts due to stockholders.
- **Long-term liabilities:** These are the obligations of the business that aren't due for at least one year. Long-term liabilities typically consist of all firm debt or stockholder loans payable outside of the following 12-month period.
- **Gross profit:** The gross profit represents the amount of direct profit associated with the actual manufacturing of the clothing. It's calculated as sales less the cost of goods sold.

- **Operating expenses:** These are the selling, general and administrative expenses that are necessary to run the business. Examples include office salaries, insurance, advertising, sales commissions and rent.
- **Depreciation:** Depreciation expense is usually included in operating expenses and/or cost of goods sold, but it is worthy of special mention due to its unusual nature. Depreciation results when a company purchases a fixed asset and expenses it over the entire period of its planned use, not just in the year purchased. The IRS requires certain depreciation schedules to be followed for tax reasons. Depreciation is a noncash expense in that the cash flows out when the asset is purchased, but the cost is taken over a period of years depending on the type of asset.
- **Operating profit:** This is the amount of profit earned during the normal course of operations. It is computed by subtracting the operating expenses from the gross profit.
- **Other income and expenses:** Other income and expenses are those items that don't occur during the normal course of business operation. For instance, a clothing maker doesn't normally earn income from rental property or interest on investments, so these income sources are accounted for separately. Interest expense on debt is also included in this category. A net figure is computed by subtracting other expenses from other income.
- **Net profit before taxes:** This figure represents the amount of income earned by the business before paying taxes. The number is computed by adding other income (or subtracting if other expenses exceed other income) to the operating profit.

- **Owner's equity:** This figure represents the total amount invested by the stockholders plus the accumulated profit of the business. Components include common stock, paid-in-capital (amounts invested not involving a stock purchase) and retained earnings (cumulative earnings since inception of the business less dividends paid to stockholders).
- **Cash-Flow Statement:** The cash-flow statement is designed to convert the accrual basis of accounting used to prepare the income statement and balance sheet back to a cash basis. This may sound redundant, but it's necessary. The accrual basis of accounting generally is preferred for the income statement and balance sheet because it more accurately matches revenue sources to the expenses incurred generating those specific revenue sources. However, it also is important to analyze the actual level of cash flowing into and out of the business.

The cash-flow statement is one of the most useful financial management tools you will have to run your business. The cash-flow statement is divided into four categories:

- **Net cash flow from operating activities.** Operating activities are the daily internal activities of a business that either require cash or generate it. They include cash collections from customers; cash paid to suppliers and employees; cash paid for operating expenses, interest and taxes; and cash revenue from interest dividends.
- **Net cash flow from investing activities.** Investing activities are discretionary investments made by management. These primarily consist of the purchase (or sale) of equipment.

- **Net cash flow from financing activities.** Financing activities are those external sources and uses of cash that affect cash flow. These include sales of common stock, changes in short- or long-term loans and dividends paid.
- **Net change in cash and marketable securities.** The results of the first three calculations are used to determine the total change in cash and marketable securities caused by fluctuations in operating, investing and financing cash flow. This number is then checked against the change in cash reflected on the balance sheet from period to period to verify that the calculation has been done correctly.

1.2 Objectives of financial statement analysis

- **Assessment of Past Performance:** Past performance is a good indicator of future performance. Investors or creditors are interested in the trend of past sales, cost of good sold, operating expenses, net income, cash flows and return on investment. These trends offer a means for judging management's past performance and are possible indicators of future performance.
- **Assessment of current position:** Financial statement analysis shows the current position of the firm in terms of the types of assets owned by a business firm and the different liabilities due against the enterprise.
- **Prediction of profitability and growth prospects:** Financial statement analysis helps in assessing and predicting the earning prospects and growth rates in earning which are used by investors while comparing investment alternatives and other users in judging earning potential of business enterprise.

- **Prediction of firm's failure:** Financial statement analysis is an important tool in assessing and predicting firm failure and probability of business failure.
- **Assessment of the operational efficiency:** Financial statement analysis helps to assess the operational efficiency of the management of a company. The actual performance of the firm which are revealed in the financial statements can be compared with some standards set earlier and the deviation of any between standards and actual performance can be used as the indicator of efficiency of the management.

1.3 Importance of Financial Statement

- **Holding of Share:** Shareholders are the owners of the company. Time and again, they may have to take decisions whether they have to continue with the holdings of the company's share or sell them out. The financial statement analysis is important as it provides meaningful information to the shareholders in taking such decisions.
- **Decisions and Plans:** The management of the company is responsible for taking decisions and formulating plans and policies for the future. They, therefore, always need to evaluate its performance and effectiveness of their action to realize the company's goal in the past. For that purpose, financial statement analysis is important to the company's management.
- **Extension of Credit:** The creditors are the providers of loan capital to the company. Therefore they may have to take decisions as to whether they have to extend their loans to the company and demand for higher interest rates. The financial statement analysis provides important information to them for their purpose.

- **Investment Decision:** The prospective investors are those who have surplus capital to invest in some profitable opportunities. Therefore, they often have to decide whether to invest their capital in the company's share. The financial statement analysis is important to them because they can obtain useful information for their investment decision making purpose.

1.4 Limitation of Financial Statement

- It is summarized reports.
- There is no adjustment of price level change.
- It misleads the user.
- It is not useful for planning
- It is qualitative aspects
- It provides only quantitative information.
- It is historical in nature.

1.5 Introduction of M/S Prime Pharmaceutical Private Limited

M/S Prime Pharmaceutical Private Limited (MSPPL) is privately held company involved in Exports of Pharmaceutical Products to Semi Regulated and Regulated Markets around the world. Having started in 1968 in Kolkata, India the company has proven its credibility in the world of pharmaceuticals and dedicated itself to meet or exceed customer expectations in terms of quality, value and service.

Prime has currently over 300 products registered in around 30 countries, and one of its branch is in Nepal. Prime has established itself as a reliable supplier globally. All its support plants have WHO-GMP approvals at the minimum and equipped with State of the Art equipments.

M/S Prime Pharmaceutical Private Limited

It is currently engaged in the business of Pharmaceuticals in Nepal. It is established in 1991 in Nepal in Birgunj. M/S Prime Pharmaceutical Private Limited commitment to its corporate vision “enduring value for all stakeholders” has been uncompromising through the years and is reflected in every pharmaceutical product, process and service provided by the company.

CHAPTER 2

FINANCIAL STATEMENT ANALYSIS

2.1 Concept & Meaning of Financial Statement Analysis

Financial Statement Analysis is an analysis of financial statement that highlights the important relationships in the financial statements. It focuses on evaluation of past performance of the business firms in terms of profitability, liquidity, solvency, operational efficiency and growth potentiality.

It includes the methods used in assessing and interpreting the results of past performance and current financial position as they relate to particular factors of interest in investment decisions. Therefore it is an important means of assessing past performance and helps in forecasting and planning future performance.

2.2 Objectives of Financial Statement Analysis

- Assessment of past performance.
- Assessment of current position.
- Prediction of profitability and growth prospects.
- Prediction of firmruptcy and failure.
- Loan decisions by industries and financial institutions.
- Assessment of the operational efficiency.
- Simplifying the information.

2.3 Importance of Financial Statement Analysis

- It helps in the diagnosis of managerial and operating problems.
- It is helpful to the firm for credit decision.
- It is basis for tax calculations.
- It is helpful in planning and decision making.
- It helps in the evaluation of performance.
- It helps the government to formulate policies.
- It is basis of controlling.

2.4 Limitation of Financial Statements Analysis

Although analysis of financial statement is essential to obtain relevant information for making several decisions and formulating corporate plans and policies, it should be carefully performed as it suffers from a number of the following limitations:

- **Qualitative aspects:** Then financial statement analysis provides only quantitative information about the company's financial affairs. However, it fails to provide qualitative information such as management labor relation, customer's satisfaction, and management's skills and so on which are also equally important for decision making.
- **Mislead the user:** The accuracy of financial information largely depends on how accurately financial statements are prepared. If their preparation is wrong, the information obtained from their analysis will also be wrong which may mislead the user in making decisions.

- **Not useful for planning:** Since financial statements are prepared by using historical financial data, therefore, the information derived from such statements may not be effective in corporate planning, if the previous situation does not prevail.
- **Comparison not possible:** The financial statements are based on historical data. Therefore comparative analysis of financial statements of different years cannot be done as inflation distorts the view presented by the statements of different years
- **Wrong judgment:** The skills used in the analysis without adequate knowledge of the subject matter may lead to negative direction. Similarly, biased attitude of the analyst may also lead to wrong judgment and conclusion. The limitations mentioned above about financial statement analysis make it clear that the analysis is a means to an end and not an end to itself. The users and analysts must understand the limitations before analyzing the financial statements of the company.

2.5 Techniques of Financial Statement Analysis

- Horizontal Analysis
- Vertical Analysis
- Trend Analysis
- Ratio Analysis

2.6 Financial Statement of M/S Prime Pharmaceuticals Private Limited , Birgunj, Nepal

BALANCE SHEET

Particulars	Note Number	Amount(Rs.)	
		31 st Ashad,2074	31 st Ashad,2073
A.EQUITY AND LIABILITIES			
1.Shareholder's funds:			
(a)Share Capital	1	105,000,000.00	26,500,000.00
(b)Reserved and Surplus	2	(1,962,774.16)	(170,980.18)
Total share holder fund		103,037,225.84	26,329,019.82
2.Current Liabilities			
(a)Short Term Borrowings	3	30,000,000.00	-
(b)Trade Payables	4	-	-
(c)Other Current Liabilities	5	50,104.00	12,100.00
Total Current Liabilities		30,050,104.00	12,100.00
Total		133,087,329.84	26,341,119.82
B.ASSETS			
1.Non-current assets:			
(a) Fixed Assets			

i. Non Depreciable Assets		20,600,000.00	20,600,000.00
ii. Depreciable Assets	6		
Opening WDV	6		
Less :-Depreciation		6,427,040.47	3,235,263.37
Closing WDV		12,383.00	450.18
Total Non Current Assets		6,414,657.47	3,234,813.19
2.Current assets:			
a .Inventories			
b. Trade Receivables	7	-	-
c. Cash and Cash Equivalents	8	-	-
d. Short term loans and advances	9	123,073.87	2,440,306.63
Total current assets		105,949,598.50	66,000.00
Total		106,072,672.37	2,506,306.63
		133,087,329.84	26,341,119.82

See accompanying notes forming part of the financial statements

In terms of our report attached.

STATEMENT OF PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31ST

ASHAD 2074(July 15th, 2017)

Particulars	Note Number	Amount(Rs.)	
		31 st Ashad,2074	31 st Ashad,2073
1.Sales	10	-	-
2.Cost of sales	11	-	-
3.Gross Profit(1-2)		-	-
4.Other Income	12	2,234.02	-
5.Operating Profit (3+4)		2,234.02	-
6.Expenses			
(a)Administration Exp	13	1,749,741.00	170,530.00
(b)Financial Exp	14	31,904.00	-
(c)Depreciation	6	12,383.00	450.18
(d)Selling expenses	15	-	-
Total Expenses		1,794,028.00	170,980.18
7.Profit /Loss before tax(5-6)		(1,791,793.98)	(170,980.18)
8.Tax Expenses			
9.Profit/Loss from continuing operations(7-8)		(1,791,793.98)	(170,980.18)

In terms of our report attached.

CASH FLOW STATEMENT FOR THE YEAR ENDING 31st ASHAD 2074(July 15th 2017)

Particulars	Amount(Rs)(2074)
Cash flow from Operating Activities	
Net Income	(1,791,793.98)
Add: Depreciation	12,383.00
Add/Less: Increase Decrease in current	(1,779,410.98)
Assets:-	-
Inventories	-
Trade receivables	(105,883,598.50)
Advances and Deposits	
Add/Less:-Increase Decrease in Current	30,000,000.00
Liabilities	-
Short Term loan	38,004.00
Trade Payables	(77,625,005.48)
Other current liabilities	
Net Cash from Operating Activities	
Cash flow from Investing Activities	
Purchase of New Equipment	(3,192,227.28)
Share Capital	78,500,000.00
Other	
Net cash from financing activities	78,500,000.00
NET INCREASE/DECREASE IN CASH	(2,317,232.76)

Opening Cash and Bank balance	2,440,306.63
Closing Cash and Bank balance	123,073.87

CHAPTER 3

RATIO ANALYSIS

3.1 Introduction of Ratio Analysis

Ratio analysis is the numerical or an arithmetical relationship between two figures. It is expressed when one figure is divided by another. It is the process of determining and interpreting numerical relationship between figures of financial statements. Ratio is used as an index or yardstick for evaluating the financial positions and performance. It helps analysts to make quantitative judgment about the financial position and performance of a firm.

“A ratio is the relationship of one amount to another expressed as the ratio of or a simple, fraction, integer, decimal fraction or percentage.”

3.2. Importance \ Advantages of Ratio Analysis

- Useful in financial position analysis.
- Useful in simplifying accounting figures.
- Useful in assessing the operational efficiency.
- Useful in forecasting purposes.
- Useful in locating weakness of the business.
- Useful in comparison of performance.

3.3 Types of Ratio Analysis

The data collected were edited, classified and tabulated for analysis. The analytical tools and statistical tools are used to analyse the data. The analytical and statistical tools used in this study are:

- **Liquidity Ratio**

A company's liquidity is its ability to meet its short-term financial obligations. Liquidity ratios attempt to measure a company's ability to pay off its short-term debt obligations. Higher the liquidity ratios, the higher the margin of safety that the company possess to meet its current liabilities

- **Current Ratio**

The current ratio indicates a company's ability to meet short-term debt obligation. Commonly acceptable current ratio is 2.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- **Cash Assets Ratio**

Cash asset ratio is the ratio of company's cash and cash equivalent assets to its total liabilities.

The cash ratio greater than 1 demonstrates a firm's ability to cover its current debt.

$$\text{Cash \& Firm Balance to Current Asset Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Liabilities}}$$

- **Leverage Ratio**

A leverage ratio is any one of several financial measurements that look at how much capital comes in the form of debt (loans), or assesses the ability of a company to meet its financial obligations.

- **Debt-Equity Ratio**

Debt-Equity Ratio is the ratio expresses the relationship between the ownership funds and the outsiders' funds.

$$\text{Debt - Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Shareholders Equity}}$$

- **Total Debt-Equity Ratio**

It is the relationship between total volume of debt and shareholders' funds.

$$\text{Total Debt - Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholders Equity}}$$

- **Proprietary Ratio**

Proprietary Ratio is the relationship between the owner's contribution and the total volume of assets.

$$\text{Proprietary Ratio} = \frac{\text{Shareholders Fund}}{\text{Total Assets}}$$

- **Turnover Ratio**

It is also known as activity ratio. It highlights the relationship in between the sales and various assets.

- **Fixed Assets Turnover Ratio**

Fixed Asset turnover is the ratio of sales (income) to the value of fixed assets. It indicates how well the business is using its fixed assets to generate income. A declining ratio may indicate that the business is over-invested in plant, equipment or other fixed assets.

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Sales (Income)}}{\text{Net Fixed Assets}}$$

- **Total Assets Turnover Ratio**

Asset turnover is a financial ratio that measures the efficiency of a company's use of its assets in generating income to the company. It measures the number of rupee of revenue generated by one rupee of the company's assets. Higher the total assets turnover ratio higher the income.

$$\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}}$$

- **Capital Employed Turnover Ratio**

Capital employed turnover ratio shows the relationship of capital employed with the sales volume. It indicates the efficiency of capital employed in the firm.

$$\text{Capital Employed Turnover Ratio} = \frac{\text{Sales}}{\text{Capital Employed}}$$

Profitability Ratio

The profitability ratio used in this study is:

- **Profit Margin Ratio**

The profit margin ratio measures the amount of net income earned with each rupees of sales generated by comparing the net income and net sales of a company.

$$\text{Profit Margin Ratio} = \frac{\text{Net Profit}}{\text{Sales (Total Income)}}$$

- **Operating Profit Margin**

Operating margin is a margin ratio used to measure a company's pricing strategy and operating efficiency. Operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc.

$$\text{Operating Profit Margin} = (\text{Operating Profit/Net sales}) * 100$$

- **Return on Total Assets**

The return on total assets is a ratio that measures a company's earnings before interest and tax against its total net assets. The ratio is considered to be an indicator of how effectively a company is using its assets to generate earning before contractual obligations must be paid.

$$\text{Return on Total Assets} = ((\text{Net profit after tax} + \text{Interest}) / \text{Total Assets}) * 100\%$$

- **Return on Equity**

Return on equity measures the ability of a firm to generate profits from its shareholders investments in the company. In other words, the return of equity ratio shows how much profit each rupee of common stockholder's equity generates.

Return on Equity = ((NPAT-Preference Dividend)/Shareholder's Equity)*100

- **Capital Adequacy Ratio**

Capital adequacy ratio is a measure of a firm's capital. It is expressed as percentage of a firm's risk weighted asset. According to Nepal Rastra Firm, commercial firm should maintain capital adequacy ratio (CAR) of 11%.

Capital Adequacy Ratio=Sum of capitals/Risk weighted assets

3.4 Interpretation of Ratios

3.4.1 Interpreting the Balance Sheet

Investors can find a lot about a company's fundamentals from the three main components of the balance sheet: assets, liability and equity.

Assets

Assets are the tangible or the intangible objects of the entity which provides future benefits. Current assets are short term assets which can be converted into cash within 12 months from the date of balance sheet. Non-current assets refer to those assets which are held for purposes of producing or providing goods and services.

Table no: 3.4.1

Assets

Year	Assets
31st Ashad , 2073	Rs.26,341,119.82
31st Ashad ,2074	Rs.133,087,329.84

Source: annual report of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

In comparison to the both financial statements, in the year 2073 the assets stand at Rs. 26,341,119.82 and for 2074 it stands at Rs.133,087,329.84. There is increase in Cash and Firm Balance along with Money at call and short notice. Likewise, new investments have been purchased and Loans has been taken. This clearly declares that there is increase in the assets which can be mobilized for potential benefits.

Liabilities and equity

Liabilities refer to the financial obligations of an enterprise other than owner's funds. There are current liabilities and non-current liabilities. Current liabilities are obligations the firm must pay within a year. Non-current liabilities, meanwhile, represent what the company owes in a year or more time.

Table no: 3.4.2

Liabilities

Year	Liabilities
31st Ashad , 2073	Rs.12,100.00
31st Ashad , 2074	Rs.30,050,104.00

Source: annual report of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

When we look at the liabilities side, the amounting in the year 2073 the liabilities stand at Rs. 12,100.00 and for 2074 it stands at Rs.30,050,104.00. This is due to the issuance of new share capital, Debentures and Bonds. Further, there is increase in the amounts of Bill Payable Proposed Dividend and Deposits. In contrast there is decrease in Reserve and Surplus, Borrowings and other liabilities.

3.4.2 Interpreting Income Statements

The income statement is a sets of documents prepared to reflect the financial performance and profitability of an entity. It consists of Balance Sheet, Profit and Loss Account, and Statement of changes in Equity, Cash Flow Statement and notes to account. The income statement is divided into two parts: the operating items section and the non- operating items section. The operating items section discloses information about revenues and expenses that are a direct result of the regular business operations and the non-operating items section discloses revenue and expenses information about activities that are not tied directly to a company's regular operations. It assesses the financial position, and helps in decision making.

Profit and Loss Appropriation account is used to distribute net profit of the year.

According to Income Statements, amount of net profit in 2074 is Rs.1, 791,793.98 and that of 2073 is Rs.170,980.18. There is $\text{Rs.}(1, 791,793.98 - 170,980.18)=\text{Rs}1,620,813.8$, i.e. 9.04% increment in net profit which signifies improvement in profit. In year 2074, the retained earning amounts to Rs1,620,813.8 which means that Rs1,620,813.8 has been distributed. Similarly in 2073, Retained Earning is Rs. 170,980.18 and distributed amount is Rs170,980.18. In year 2073, more amount has been distributed as Bonus, Dividends and for different Funds.

3.4.3 Interpreting Cash flow Statement

A summary of the actual or anticipated incomings and outgoings of cash in a firm over an accounting period (month, quarter, year).Cash flow statements assess the amount, timing, and predictability of cash-inflows and cash-outflows, and are used as the basis for budgeting and business-planning.

Cash from Operation

Cash from Operation is cash flow that arises from normal operations such as revenues and cash operating expenses net of taxes.

Table no: 3.4.3
Cash from Operation

Year	Net Profit (in Rs)	Cash Flow from Operating Activities
31st Ashad , 2073	170,980.18	-
31st Ashad , 2074	1,791,793.98	77,625,005.48

Source: annual report of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

Due to increase in Net Profit there has been increase in Cash Flow from Operating Activities. This has helped in boosting the financial performance of the Firm.

Cash from Investing

Cash from investing activities refers to the flow of cash for Long term purposes and from previous investments such as Fixed Assets, Investments, and Dividends etc.

Table no: 3.4.4
Cash from Investing

Year	Cash From Investment
31st Ashad , 2073	(170,980.18)
31st Ashad , 2074	(3,192,227.28)

Source: annual report of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

There has been a huge fluctuation in level of cash from Investing Activities; this is mainly due to huge purpose of Long Term Investment in current year along with Fixed Assets. Meanwhile, there has been small increase in interest and Dividend Income.

Cash from Financing

Cash from Financing is to raise capital and for repayment to investors. Two common financing activities are taking on a loan or issuing stock to new investors. Dividends to current investors also fit in here.

Table no: 3.4.5

Cash from Financing

Year	Cash from Financing (in Rs)
31st Ashad , 2073	31,904.00
31st Ashad , 2074	78,500,000.00

Source: annual report of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

The table clearly indicates that there is huge amount of increase in Cash from Financing Activities; this is especially because of Long Term Debt taken by the Firm. Meanwhile, there has been no Share Capital issued or subscribed. Therefore, there is high amount of Cash Inflow due

to Bond. This reflects that Firm has intention to invest the money in other financial sectors apart from Share Capital.

To summarize the Cash Flow Statements, the total Cash Flow from all activities for Ashad , 2073 is 31,904.00 and for 31st Ashad ,2074 is 78,500,000.00. Cash Flow has been largely impacted by purchase of Long Term Investment and acquiring Long Term Bond.

4.4 Ratio Analysis

Presentation of Data in Tables

Table no:3.4.6

Trend Percentage of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

Particulars	31st Ashad , 2073	31st Ashad , 2074
Deposits and Advances	66,000.00	105,949,598.50
Net Profit	-	-

Source: annual report of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

In the above table, deposit, advances and net profit of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED in different years are shown. There is increase in the deposit from 31st Ashad , 2073 to 31st Ashad ,2074. Similarly, the advances and Net Profit are also in increasing form. From this we can conclude that there is better performance during the year.

Table no: 3.4.7

Current Ratio

Year	Current Assets	Current Liabilities	Current Ratio
31st Ashad , 2073	2,506,306.63	12,100.00	207

31st Ashad , 2074	106,072,672.37	30,050,104.00	3.52
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Source: annual report of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

Interpretation: Current ratio should be above 1, and it's usually a sign of strength if it exceeds 2.

Findings : Current ratio of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED in year 31st Ashad , 2073 to 31st Ashad ,2074 is 3.52.

Table no: 3.4.8

Cash Assets Ratio

Year	Cash & Firm Balance (Rs.)	Current Liabilities (Rs.)	Cash Assets Ratio
31st Ashad , 2073	2,440,306.63	12,100	0.004
31st Ashad , 2074	123.073.87	30,050,104.00	244.16

Source: annual report of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

Interpretation: The cash ratio greater than 1 demonstrate a firm's ability to cover its current debt.

Findings: The cash assets ratio of 31st Ashad , 2073 is 0.004 and 31st Ashad ,2074 is 244.16.

Over all the cash assets ratio is below 1, it means that the firm will not be able to cover its current debt.

Table no: 3.4.9

Debt-Equity Ratio

Year	Long Term Debt (Rs.)	Shareholders Fund (Rs.)	Debt-Equity Ratio
31st Ashad , 2073	3,234,813.19	26,329,019.82	0.12
31st Ashad , 2074	6,414,657.47	103,037,225.84	0.06

Source: annual report of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

Interpretation: Higher ratio indicates the riskier financial status of the firm which means that the firm has been financed by the greater outsiders' fund rather than that of the owners' fund contribution and vice-versa.

Findings: The debt-equity ratio 31st Ashad , 2073 is 0.12 and 31st Ashad ,2074 is 0.06

.The overall ratio is very low which means that the firm has been financed by the greater owner's fund.

Table no: 3.4.10

Total Investment to Total Deposit Ratio

Year	Total Investment (a)	Total Deposit (b)	Capital Employed Turnover Ratio (a/b)
31st Ashad , 2073	26,329,019.82	26,341,119.82	9.95%
31st Ashad , 2074	103,037,225.84	133,087,329.84	7.74%

Source: annual report of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

The ratios are 9.95% and 7.74% respectively for the current year and previous year respectively. This 9.95% indicates that the 7.74% of total deposit received are invested as investment. The higher the ratio higher the management's efficiency regarding the utilization of the deposits received.

Table no: 3.4.11

Earning Power

Year	Earnings Before Interest and Tax (a)	Total Assets (b)	Earning Power
31st Ashad , 2073	170,980.18	26,341,119.82	0.64%
31st Ashad , 2074	1,791,793.98	133,087,329.84	1.34%

Source: annual report of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED from year 31st Ashad , 2073 to 31st Ashad ,2074

Here earning power of M/S PRIME PHARMACEUTICALS PRIVATE LIMITED is increased.

In Fiscal year 2073 return of 0.64% in relation to investment on total assets is seen and in fiscal year 2074 return of 1.34% in relation to investment on total assets.

CHAPTER 4

SUMMARY AND CONCLUSION

4.1 SUMMARY

Analysis of the financial performance is done to obtain a better understanding of a firm's position and performance. It helps in establishing a meaningful relationship between various items of the financial statements with each other in such a way that a conclusion can be drawn. The integral part of financial statement is Income Statement and Balance Sheet. These are prepared at the end of a given period of time. They are indicators of profitability and financial soundness of the business concern.

The main objective of preparation of this report is to analyze the financial performance of M/S Prime Pharmaceutical Private Limited. Apart from that, it can also be used as a reference guide for investors to get the idea on how the financial performance of any trading firm can be performed. For the purpose of analysis of financial performance, analysis of income statement and balance sheet, and ratio analysis of various aspects like operating efficiency, return on assets, return on equity, market price to book value, market price are done.

4.2 CONCLUSION

On the basis of above analysis, the overall financial performance of M/S Prime Pharmaceutical Pvt.Ltd. does not seem to be so good in these two years. More focus should be given on those sectors or say factors in order to improve its competitive strength and management efficiency.

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