



COMMON SIZE STATEMENTS

SUBJECT:MANAGEMENT ACCOUNTING

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COMMON SIZE STATEMENTS

- Statements in which items are converted into percentages taking some common base.
- It is used for vertical analysis, in which each line item in a financial **statement** is represented as a percentage of a base figure within the **statement**.

OBJECTIVES

- To present the changes in the various items in relation to net sales ,total sales, total liabilities
- To establish a relationship between various items of the financial statements
- To provide a common base for comparison

Common size balance sheet

- A statement in which assets is shown as a % of total assets and each liability is shown as a % of total liabilities and capital

Common size income statements

- it is an income **statement** in which each line item is expressed as a percentage of the value of revenue or sales.

STEPS

- Total assets are to be taken as 100. similarly total liabilities and capital also as 100
- Each item on the asset side is divided by total assets and divided by 100 .
- Vice versa in liability side

Example 4

You are given the following balance sheet of Sree Krishna Ltd.

Balance Sheet as on 31-3-2019**Assets**

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Non-current Assets:

Land & Building	8,00,000
Plant & Machinery	6,00,000
Furniture	1,00,000
Investments	2,00,000

Current Assets:

Cash	1,00,000
Debtors	2,00,000
Stock	4,00,000
	<u>24,00,000</u>

Equity & Liabilities

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*Equity**Share Capital:*

Equity	6,00,000
Preference	4,00,000
Reserves & Surplus	2,00,000

Non-current Liabilities :

Secured Loans	4,80,000
Unsecured Loans	2,20,000

Current Liabilities:

Sundry Creditors	2,00,000
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CALCULATIONS

- Assets = $800000/2400000*100=33.3\%$
- Liabilities = $200000/2400000*100=8.3\%$

INTERPRETATION

- We can interpret the changes only if there is data of more than one year is provided

common-size statement. Other expenses and other incomes are added to it to get net profit. Thus each item in the P/L A/c is expressed as a percentage of sales.

Example 5

From the following data, prepare a common-size income statement

	2018 ₹	2019 ₹
Sales	10,50,000	16,75,000
Returns inward	50,000	75,000
Cost of goods sold	7,50,000	10,00,000
Administrative expenses	60,000	1,60,000
Selling expenses	40,000	80,000
Interest on loan	10,000	30,000
Income tax	15,000	40,000

Solution

Common size Income Statement

COMMON SIZE INCOME STATEMENTS

- Textual question interpretation
- Cost of good sold has decreased from 75% to 62.5% in the year 2019 .this may be due to decrease in the price of materials, wastage and idle time etc. therefore the rate of gross profit has increased from 25% to 37.5 %
- Administrative and selling expenses is showing an increasing trend.
- The combined effect of gross profit and operating expenses has caused for an increasing trend of operating profit from 15to 22.5% in the year 2019
- There is a slight decrease in the percentage of income tax
- As the final conclusion ,it may be said that company's operation and performance is improved in the year 2019 comparing to 2018.