

Income Statement Analysis of State Bank of India

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Abstract

Certain accounting conventions and principles are used to prepare the financial statements. Accounting is a dynamic science, and accountants have developed a number of conventions based on their experiences over time. Despite the fact that a number of accounting conventions and assumptions have been proposed, their application is influenced by the personal judgement of accountants. Because financial statements are subjective documents, they are influenced by accountants' personal judgement. The Banking should increase both its sales volume and its gross profit. Despite price decreases in various products, the banking namely SBI has been able to maintain and grow its market share, resulting in strong margins in the market and contributing to the Bank's strong financial position.

A financial statement is a formal record of a Banking's, person's, or other entity's financial activities. Relevant financial information is presented in a structured and easy-to-understand format. They usually include basic financial statements, as well as a management discussion and analysis and a statement of revenue and expenses, or a profit and loss report, provides information about a bank's income, expenses, and profit over time.

Keywords: *Income statement, Financial statements, Accounting principles.*

I. INTRODUCTION

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

Thus, the term 'financial statements' generally refers to the two statements:

(i) The position statement or the balance sheet; and (ii) the income statement or the profit and loss account. These statements are used to convey to management and other interested outsiders the profitability and financial position of a firm.

Financial statements are the outcome of summarizing process of accounting. In the words of John N. Myer, "the financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as on a certain date and the income statement showing the results of operations during a certain period. Financial statements are prepared as an result of financial accounting and are the major sources of financial information of an enterprise. Smith and Asuburne define financial statements as "the end product of financial accounting in a set of financial statements prepared by the account of a business enterprise that purport to reveal the financial position of the enterprise, the result of its recent activities, and analysis of what has been done with earning".

Financial statements are also called financial reports. in the worlds of Anthony "financial statements, essentially, or interim reports, presented annually and reflect a division of the life of an enterprise into more or less arbitrary accounting period more frequently in a year."

According to Section 2(40) of the Companies Act, 2013, financial statements in relation to a company include the following:

- i. A balance sheet as at the end of the financial year;*
- ii. A statement of profit and loss for the financial year;*

- iii. *cash flow statement for the financial year;*
- iv. *a statement of changes in equity, if applicable; and*
- v. *Explanatory notes.*

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

Further section 241 of the Companies Act 2013 provides the companies financial year should end on 31st March of every year.

Financial statements are the basis for decision making by the management as well as other outsiders who are interested in the effects of the firm such as investors, creditors, customers, suppliers, financial institutions, employees, potential investors, government and the general public.

Importance of Financial Statements

The financial statements are mirror which reflects the financial position and operating strength or weakness of the concern. These statements are useful to management, investors, creditors, bankers, workers, government and public at large. George O. May points out following major uses of financial statements.

1. As a report of stewardship
2. As a basis for fiscal policy
3. To determine the legality of dividends
4. As guide to advise dividend action
5. As a basis for the granting of credit
6. As informative for prospective investors in an enterprise
7. As a guide to the value of investment already made
8. As an aid to government supervision
9. As a basis for price or rate regulation
10. As a basis for taxation.

Techniques of analyzing income statement

The analysis and interpretation of financial statements is used to determine the financial position and results of operations as well. a number of methods are devices are used to study the relationship between difference statements. An effort is made to use those devices which clearly analyse the position of the enterprise.

The following methods of analysis is analysis or generally used:

1. Comparative statements
2. Trend analysis
3. Common-size statements
4. funds flow analysis
5. Cash flow analysis
6. Ratio analysis

Procedure of financial statements analysis

Broadly speaking there are three steps involved in the analysis of financial statements. These are: (i) selection, (ii) classification and (iii) interpretation. The first step involves selection and information (data) relevant to the purpose of analysis of financial statements. The second step involved is the methodical classification of the data and the third step includes drawing of inferences and conclusions.

Comparative financial statements

Comparative statement is a tool of financial analysis is used to study the magnitude and direction of changes in the financial position and performance of a firm over a period of time. The preparation of comparative

statement is based on the premise that a statement covering a period of a number of years is more meaningful and significant than for a single year only.

The comparative statement may show:

1. Absolute figures (rupee amounts).
2. Changes in absolute figures i.e., increase or decrease in absolute figures.
3. Absolute data in terms of percentages.
4. Increase or decrease in terms of percentages.
5. Comparison Expressed in terms of ratios.
6. Percentage of totals.

The two comparative statements are

1. Balance sheet and
2. Income statement.

The income statement gives the results of the operations of a business. It shows profit or net loss on account of business operations. The comparative income statement gives an idea of the progress of a business over a period of time. The changes in absolute data in money values and percentage can be determined to analyse the profitability of the business.

Formula:
$$\frac{(P1-PO) \times 100}{PO}$$

Where

P1- Current year,

P0- Previous year.

Review of Literature

To provide an insight in to the increase statement analysis, relevant literature is provided below:

1. The financial management represents the life of a business. As per study conducted, (Al Ahbabi and Nobanee, 2019) states that like many sources, finances are often restricted, but business wants are usually unlimited therefore, means that it is essential for a business to manage its finances effective.
2. The study conducted by Singh (2002) reviews the importance of financial ratios in analyzing different industries. The study pointed out some of the key findings that came up with ratio analysis. The study focused on the financial executives, bankers, owners and lodging general managers. The study came up with a conclusion that there were differences between these user individuals (Singh & J, 2002). It showed that , ‘General Managers’ has found activity and operating ratios more useful than other user individuals and whereas owners considered profitability ratios more useful, whereas corporate executives found liquidity ratios more useful than other user individuals, bankers ranked solvency ratios higher than others and financial executives ranked profitability, activity and operating ratios as most important (Singh A. J., 2002).
3. Another study conducted (Alkhyeli et al. 2021) results showed that investing in various diversification firm is the most appropriate actions. In addition to this (Al Ghanem et al. 2021) study shows that multinational companies also compute, current and deliberate the pertinent financial ratios for the occupied capital management, liquidity, profitability, leverage, and cash flows of the two afore mentioned companies and comparisons them to reach at an correct conclusion regarding their financial performance over the last four years.

Objectives of the study

The present paper is basically an analytical one based on the profit & loss account (Income Statement) of the State Bank of India (SBI). However, the paper is guided by the following sub objectives:

1. Preparation of comparative income statement for the State Bank of India and computing percentage change in 2021 over the base year 2017.

2. Calculation of earnings based on ratios like basic EPS, diluted EPS and the dividend rate in a comparative and common size manner, to study the change in 2021 over the base year 2017.

Data Analysis and Interpretation

Table 1. State Bank of Bank Profit & Loss A/C

Profit & Loss A/C of SBI (in Rs.cr.)	Mar 21	Mar 20	Mar 19	Mar 18	Mar 17	P1-P0/P0x100
Income						
Interest / Discount on Advances /Bills	171,429.14	179,748.84	161,640.23	141,363.17	119,510.00	43.44
Income from Investments	79,808.09	68,204.72	74,406.16	70,337.62	48,205.31	65.55
Interest on Balance with RBL and other Inter-Bank funds	4,317.53	2,920.41	1,179.07	2,250.00	1,753.47	146.22
Others	9,595.87	6,449.63	5,643.19	6,548.53	6,049.46	58.62
Total Interest Earned	265,150.63	257,323.59	242,868.65	220,499.32	175,518.24	51.06
Other Income	43,496.37	45,221.48	36,774.89	44,600.69	35,460.93	22.65
Total Income	308,647.01	302,545.07	279,643.54	265,100.00	210,979.17	46.29

Profit & Loss A/C of SBI (in Rs.cr.)	Mar 21	Mar 20	Mar 19	Mar 18	Mar 17	P1-P0/P0x100
Expenditure						
Interest Expended	154,440.63	159,238.77	154,519.78	145,645.60	113,658.50	35.88
Payment to and Provisions for Employees	50,936.00	45,714.97	41,054.71	33,178.68	26,489.28	92.28
Depreciation	3,317.55	3,303.81	3,212.31	2,919.47	2,293.31	44.66
Operating Expenses (excludes employee Cost & Depreciation)	28,398.67	26,154.91	25,240.72	23,845.30	17,690.18	60.53
Total operating Expenses	82,652.22	75,173.69	69,687.74	59,943.45	46,472.77	867.48
Provision Towards Income Tax	10,760.88	2,803.14	491.13	673.54	4,165.83	158.31
Provision Towards Deferred Tax	-3,630.23	7,510.99	954.12	-9,654.33	337.78	974.73
Other Provisions and	44,013.03	43,330.37	53,828.55	75,039.20	35,992.72	22.28

Contingencies						
Total Provisions and Contingencies	51,143.68	53,644.50	54,573.80	66,058.41	40,363.79	26.70
Total Expenditure	288,236.54	288,056.96	278,781.31	271,647.46	200,495.07	43.76
Net Profit /Loss for The Year	20,410.47	14,488.11	862.23	-6,547.45	10,484.10	94.68
Profit / Loss Brought Forward	-10,498.30	-15,226.06	-15,078.57	0.32	0.32	3280618
Total Profit /Loss Available for Appropriations	9,912.17	-737.94	-14,216.34	-12,954.83	10,484.42	-5.45

Profit & Loss A/C of SBI (in Rs.cr.)	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	P1-P0/P0x100
Appropriations						
Transfer To / From Statutory Reserve	6,123.14	4,346.43	258.67	0	3,145.23	94.68
Transfer To / From Capital Reserve	1,465.12	3,985.84	379.21	3,288.88	1,493.39	-1.89
Transfer To / From Revenue and other Reserve	2,354.90	1,428.08	371.84	-1,165.14	3,430.55	-31.35
Dividend and Dividend Tax for The Previous. Y	0	0	0	0	0	0
Equity Share Dividend	3,569.84	0	0	0	2108.56	69.3
Tax On Dividend	0	0	0	0	306.38	100
Balance Carried Over to Balance Sheet	- 3,600.84	- 10,498.30	- 15,226.06	- 15,078.57	0.32	0
Total Appropriations	9,912.17	-737.94	- 14,216.30	- 12,954.80	10,484.42	-5.45

Profit & Loss A/C of SBI (in Rs.cr.)	Mar 21	Mar 20	Mar 19	Mar 18	Mar 17	P1-P0/P0x100
Other Information						
Earnings Per Share						
Basic EPS (Rs.)	22.87	16.23	0.97	-7.67	13.43	70.29
Diluted EPS (RS.)	22.87	16.23	0.97	-7.67	13.43	70.29
Dividend Percentage						
Equity Dividend Rate (%)	400.00	0.00	0.00	0.00	260.00	53.84

Interpretation

The P & L A/C of State bank of India shows that the income from interest / discounts on Advance/ Bills have shown a positive note of 43.44 %. And the total interest earned by the bank through all the sources has increased 51.06 % at present 2021 from the base year 2017. The total income earned has shown a rise of 46.29 %

The total operating expenses of the bank have increased by a massive 867.48 %. And total expenditure of the bank increased by 43.76 % during the study period. The total appropriations of the bank of P & L have declined by 5.45.%.

The transfer to statutory reserve has shown an increase of 94.68 % during the period of 2017 to 2021. And the total appropriations of reserves have declined by 5.45 %.

The basic and diluted EPS of the bank have increased to 70.29.% and 70.29 % respectively and paid out during the study period increased by 53.84 %.

Suggestions

1. Selected sample bank Viz SBI can negotiate longer payment terms with certain suppliers and opt for longer pay cycles of the existing long-term loans to improve its liquidity further. Selected sample bank should liquidate all the obsolete assets and consider leasing assets rather than striving to buy them in order to maintain the liquidity position/.
2. It is recommended that the SBI increases the amount of cash it pays every month towards the short term and long-term commitments. This proposal is based on the concept that making extra cash payments top service debts will help the SBI to lower their overall debts within a reduced period. As a result, the amount of leverage that the SBI uses from the total debt and assets perspectives will improve despite the economic downturns observed across the globe from the COVID-19 pandemic.
3. Following the findings that all the three components of the profitability, return on assets, and profit margin) of the sample bank reduced in 2020 compared to the previous two years, 2019 and 2018, following the significant decrease in the turnover and cost of goods sold. It is recommended that the business venture should expand its target market to increase the consumer base of its products. Increased the consumer base will likely lead to the increased turnover volume of the SBI. As a result, the sales and net income will increase to create a positive impact in the bank's profitability.
4. As the bank is suffering from the burden of served assets, it is advised to follow the RBI's guidelines. Scrupulously to collect the NPA's and improve its liquidity in one hand and profitability on the other hand.

Conclusion

- The profit loss a/c of interest, discount on advances bills has increased to 81.84% at present year 2021 compared to the base year 2017 and the total interest earned has shown up a rise of 67.05% during the study period the total income of the bank have risen by 70.49% total operatory expenses of the bank have increased by 120.98% on an average 120.98% the total appropriations of the bank have shown a decline 40.6%/ The Basic and Diluted EPS of bank of Baroda have declined 70.33% and 70.03% respectively the divided declared and paid out is 100%.
- The profit and loss a/c of Canara bank is income received on interest, discount on advances and bills have shown on improvement by 70.36% from the base year 2017 to current year 2021 total interest earned from all sources has risen by 67.29% and total income of the Bank increased by 72.70%. The total operating expenses have increased 127.17% approximately and the appropriation for total P & L has increased 127.96% the transfer to statutory reserve has shown an increase of 127.54% and the total appropriation have shown an massive increase of 6,367.26%. The basic and diluted EPS of the bank were increased by 17.93% and 17.93% respectively during the time period 2017 to 2021 the dividend equity rate declared and paid out has shown a rise of 100%.
- The P & L A/C of State bank of India shows that the income from interest / discounts on Advance/ Bills have shown a positive note of 43.44 %. And the total interest earned by the bank through all the sources has increased 51.06 % at present 2021 from the base year 2017.

The total income earned has shown a rise of 46.29 % . The total operating expenses of the bank have increased by a massive 867.48 % . And total expenditure of the bank increased by 43.76 % during the study period. The total appropriations of the bank of P & L have declined by 5.45.%.

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