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A Study on Interrelation Impact of Balance Sheet, Income Statement and Cashflow Statement

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Abstract

The study focused on interdependent relationship among the three fundamental financial statements that reflect a company's overall financial performance and position. The research is based on a five-year financial analysis (2021–2025) of JSW Steel focusing on key components such as Equity Share Capital, Reserves and Surplus, Long term borrowings, non-current liabilities, Trade Payable, Current Liabilities, Tangible Assets, Inventories, Trade Receivables, Cash and Cash Equivalents, Operating Revenue, Total Expenses, Profit/loss After tax and Before Extraordinary items. This study emphasizes that the balance sheet, income statement, and cash flow statement are intrinsically linked, with changes in one statement producing measurable effects on the others. Understanding these interrelations is essential for financial analysis, managerial decision-making, and assessing a company's profitability, solvency, and operational efficiency.

Introduction

The Balance Sheet, Income Statement, and Cash Flow Statement are the three most important reports that present a complete picture of a company's operations, profitability, and liquidity. The Balance Sheet shows what the company owns and owes at a specific point in time, the Income Statement reports the company's profit or loss during a period, and the Cash Flow Statement records the inflow and outflow of cash in operating, investing, and financing activities. These statements are interrelated, and a change in one often influences the others. Understanding their relationship is crucial for accurate financial analysis and effective managerial decision-making. This study focuses on JSW Steel Limited, one of India's leading integrated steel manufacturing companies and a key player in the global steel industry. The research analyzes the interrelation and impact of JSW Steel's Balance Sheet, Income Statement, and Cash Flow Statement over a five-year period (2021–2025).

Problem Statement

Every organization has three fundamental statements. The income statement, balance sheet and cash flow statement are the three statements which testifies the performance and position of the company. In order to know how these three statements are interlinked and its impact on the performance, a sincere attempt is made to know the same.

Objectives

- To understand the structure of financial statement.
- To analyze the interrelationship between the financial statements.
- To identify the impact of change in financial elements on the statements.

Scope

The scope includes the examining of company's financial statement over the impact and interrelation between them. This study aims to only JSW Steels financial statement for the year 2020-21 to 2024-25 and does not take account of previous year.

Collection of data

The data for this study is taken from the secondary source like JSW steel annual reports and financial statement, and financial database and websites like Moneycontol and Finbox.

Analysis of data

In this study we have used trend analysis to identify patterns and changes in financial performance over time. Financial statement analysis software or spreadsheet tools (e.g., Excel) for data analysis.

Limitations

- Time frame
- Data availability.

Analysis and Interpretation

1. **Equity Share Capital**

Equity Share Capital					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	302	301	301	305	305
Trendline	100%	99.67%	99.67%	101%	101%

Equity Share Capital comes under Share Holder's Fund in liabilities side of the balance sheet representing the funds raised by issue of shares.

In the year 2021-22 and 2022-23 the equity share capital has decreased by 0.33%. indicating the buyback of shares. The equity share capital has gradually increased by 1% in next 2 years indicating the issue of shares.

Impact

a. **Balance sheet**
The impact of increase or decrease in equity share capital and also impacts on cash or cash equivalents.

b. **Income Statement**
The impact on the income statement will be of the dividend paid out.

c. **Cash Flow Statement**
The impact on the cash flow statement will be in cash from financing activities as there will be increase or decrease in equity capital. We can see cash inflows in every year through the issue of shares and outflow cash by dividend paid.

2. **Reserves and Surplus**

Reserves and Surplus					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	46,675.00	63,200.00	63,358.00	74,978.00	79,534.00

Trendline	100%	135%	136%	161%	170%

Reserves and Surplus come under the Share Holder's fund in liabilities side of the balance sheet representing the accumulated profit and retained earnings of the company that has been kept aside for a specific purpose.

The reserves and surplus have gradually increased by 70% for past 5 years indicating more sales and has a great debtors turnover ratio.

Impact

a. **Balance Sheet**
The increase in reserves and surplus increases the equity capital in the balance sheet. The increase in reserves and surplus increases the equity share capital and also increases the cash or in assets.

b. **Income Statement**
Income Statement has no impact from the Reserves and Surplus as it is taken from the profit which is calculated in income statement.

c. **Cash Flow Statement**
The increase or decrease in reserves and surplus affects the cash flow in operating activity.

3. **Long Term Borrowings**

Long term borrowings					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	39,551.00	41,176.00	48,346.00	47,241.00	55,919.00
Trendline	100%	104%	122%	119%	141%

Long term borrowings come under non-current liabilities on liabilities side of the balance sheet representing the long-term loans taken by the company.

The long-term borrowings of the company are been gradually increasing by past 5 years increasing by 41%.

Impact

a. **Balance Sheet**
The increase or decrease in long term borrowings increases the non-current liabilities and increase or decrease in assets or cash and cash equivalent.

b. **Income Statement**
The impact of long-term borrowings in income statement comes as interest paid which decreases the profit earned.

c. **Cash Flow Statement**
The impact of long-term borrowings will be in cash from financing activity which indicates the cash inflow when borrowing are taken and decreases when the interest is paid and when the debt is paid off showing the cash out flow.

4. Non-Current Liabilities

Non-current liabilities					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	49,215.00	53,235.00	59,847.00	60,701.00	68,814.00
Trendline	100%	108%	122%	123%	140%

Non-Current liabilities are the aggregate of long-term liabilities, long term borrowings and provisions. It comes under the head liabilities in the balance sheet.

The amount of non-current liabilities is gradually increasing for past 5 years increasing by 40%.

Impact

a. **Balance Sheet**
The changes in non-current liabilities will also change the assets or Cash And Cash Equivalents proportionally.

b. **Income Statement**
Non-current liabilities impact income statement when the interest is paid impacting in decrease in profit.

c. **Cash Flow Statement**
Non-current liabilities impact cashflow statement when the interest is paid showing the outflow of cash in cash from financing activity and when the debt is borrowed it shows cash inflow.

5. Trade Payables

Trade Payable					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	12,150.00	24,328.00	30,705.00	12,742.00	8,913.00
Trendline	100%	200%	253%	105%	73%

Trade payable comes under current liabilities head under liabilities. This indicates the credit purchases done by the company.

The trade payables have increased for 2 years till 2021-22 increased by 153%. In the year 2023-24 the company has paid out some of its payables causing the amount be increased by 5%. The next year the company paid of its payables indicating the decrease of amount by 27%.

Impact

a. **Balance Sheet**
The increase in trade payables also increases the inventories and decrease in trade payables indicates the payment causing decrease in cash and cash equivalents.

b. **Income Statement**
Trade payables do not affect the income statement as it is liabilities to the company.

c. **Cash Flow Statement**
Trade payable affects the cash flow statement in cash from operating activity. This may affect cash flow statement by out flow or inflow of cash in the form of credit purchase increase or decrease.

6. **Current Liabilities**

Current Liabilities					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	37,040.00	46,134.00	49,335.00	49,454.00	43,608.00
Trendline	100%	125%	133%	134%	118%

The current liabilities are the aggregate of the short-term obligations of the company which has to be paid. This comes under liabilities section in balance sheet. This includes all the short-term liabilities like trade payables, short term provisions, short term borrowings etc.

The current liabilities have gradually increased for 3 years amounting 34% increase. In the year 2024-25 the company has paid of its short-term obligations causing the increase of 18% compared to the base year.

Impact

a. **Balance Sheet**
The Increases or decrease in current liabilities will also cause proportional changes in quick assets like inventory and cash and cash equivalent.

b. **Income Statement**
Income statement does not have any impact from the current liabilities as it is not considered as the expense or income for the company.

c. **Cash Flow Statement**
The impact of current liabilities comes under cash from operating activity as payables. The impact may increase or decrease the cash flow as the company borrows and pays it off.

7. **Tangible Assets**

Tangible Assets					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	50,328.00	69,767.00	73,255.00	77,243.00	76,253.00

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Trendline	100%	139%	146%	153%	152%

Tangible assets are physical resources of the company which can be seen, touched and measured.

In the year 2021-22 the company purchased some assets increasing it by 39%. In the year 2022-23 the company purchased some more increasing the tangible assets by 46%. The company again purchased tangible assets in the year 2023-24 increasing by 53%. In the year 2024-25 the company sold some of its tangible assets decreasing it by 1% compared to previous year 2023-24.

Impact

a. **Balance Sheet**
The Increase or decrease in assets will affect borrowings in the same proportion.

b. **Income Statement**
Tangible assets do not affect the income statement as it is neither income nor expense.

c. **Cash Flow Statement**
To do transactions of the tangible assets like purchase or sales cash is required. So, the purchase and sales of tangible assets are recorded in the cash from operation section of the cash flow statement. The purchase decreases the cash indicating cash out flow and the sales increase the cash balance indicating the cash inflow.

8. **Inventories**

Inventories					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	10,692.00	21,028.00	19,517.00	23,234.00	19,819.00
Trendline	100%	197%	183%	217%	185%

Inventories are the raw materials which the company had in the financial year ending. This comes under the assets head and current assets sub heading.

During the year 2021-22 the company had increased their inventory by 97%. In the year 2022-23 the company used the raw materials efficiently which reduced the inventories by 14% compared to previous year 2021-22. The company again purchased the raw materials increasing it by 117% compared to 2020-21. In the year 2024-25 the company used its inventory causing the decreasing it by 32% compared to year 2023-24.

Impact

a. **Balance Sheet**
The Increase in inventories also increases the current liabilities.

b. **Income Statement**
Inventories do impact in income statement. Income statement has a impact when the inventory is purchased under expenses head. It also impacts as the inventory is used to produce. This transaction comes under cost of materials consumed. The purchase impacts the income statement by decreasing the profit as it is the transaction where the cash flows out.

c. Cash Flow Statement

Inventories impact on the cash from operating activity. The increase in inventory shows the cash out flow.

9. Trade Receivables

Trade Receivable					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	3,333.00	6,146.00	6,000.00	6,498.00	5,672.00
Trendline	100%	184%	180%	195%	170%

Trade receivables come under the head current assets in assets. This indicates the credit sales done by the company.

In the year 2021-22 the company made 84% more credit sales than the previous year. The company received 4% of its receivables in year 2022-23. The company again made credit sales in year 2023- 24 increasing trade receivables increase by 95%. The company recovered it receivables in year 2024-25 causing the decrease in trade receivables by 25% compared to year 2023-24.

Impact

a. Balance Sheet

The impact of trade receivables also impacts reserves.

b. Income Statement

Trade receivables do not impact the income statement as it is not yet received and is not considered as the income.

c. Cash Flow Statement

Trade receivables impact the cash from operations section in cash flow statement. When we receive the cash for the credit sales the cash inflow is shown and when there is credit sale the cash outflow is shown.

10. Cash and Cash Equivalents

Cash and Cash Equivalents					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	11,746.00	15,527.00	18,716.00	8,129.00	10,261.00
Trendline	100%	132%	159%	69%	87%

Cash and cash equivalents comes in sub heading current assets under assets head.

In the year 2021-22 the company had 32% more cash than previous year. For the year 2022-23 the company had had 59% more cash. In the year 2023-24 the company cash balance to reduce to 31%. In the year 2024-25 the cash balance decreased to 87%.

Impact

a. **Balance Sheet**
The Increase or decrease in this also impact increase or decrease in the liabilities.
b. **Income Statement**
Cash and cash equivalents does not affect income statement as it not an income or an expense.
c. **Cash Flow Statement**
Cash and cash equivalents is the main thing which impacts cash flow statement as it records all the cash inflow and outflow transactions. The increase in cash and cash equivalents gives the cash inflow and decrease shows the cash outflow.

11. Operating Revenue

Operating Revenue					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	70,727.00	1,18,820.00	1,31,687.00	1,35,180.00	1,27,702.00
Trendline	100%	168%	186%	191%	181%

Operating revenue is the amount earned by the sales done by the company in the particular year.

The operating revenue has been increasing for past 3 years increased by 91%. In the year 2024-25 the company had an increase of 81% sales.

Impact

a. **Balance Sheet**
Operating revenue does not affect balance sheet as directly. But operating income indirectly impacts balance sheet. Increase in operating revenue cause in increase in cash equivalents or trade receivables. Gradually increasing the profit for the year.
b. **Income Statement**
Operating revenue is the first item that comes in income statement. Increase or decrease in the operating revenue impacts the profit of the company.
c. **Cash flow statement**
Operating revenue does not directly affect income statement. It affects in cash from operating income in the form of receivables which affects the increase or decrease in cash flow.

12. Total Expenses

Total Expenses					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	58,814.00	95,312.00	1,26,291.00	1,24,743.00	1,21,720.00

Trendline	100%	162%	215%	212%	207%

Total expenses are the expenses done by the company to operate. This comes in the income statement.

Total expenses have increased by 115% in 2 years. In the year the company expended 112% more than the base year. And for the next year the company had expended 107% more than that of the base year that is 2020-21.

Impact

a. **Balance Sheet**
The increase or decrease in expenses affects the profit which is further used as reserves and surplus, thus this impacts indirectly to balance sheet.

b. **Income Statement**
Total expenses impact in increase or decrease in the profit as these are the expenses done by the company.

c. **Cash Flow Statement**
Total expenses affect cashflow statement by decreasing which shows the outflow of the cash. More the expenses more the cash outflow.

13. Profit/loss After tax and Before Extraordinary items

Profit/loss After tax and Before Extraordinary items					
Year	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**
Amount	8,393.00	16,702.00	4,937.00	8,041.00	5,837.00
Trendline	100%	199%	59%	96%	70%

Profit/loss after tax and before extraordinary items is the profit that the company has after paying the interest and before depreciation. This item is listed in income statement.

The profit/ loss after tax and before extraordinary items had increased by 99% in the year 2021-22. In the year 2022-23 the profit decreased by 41% compared to the base year that is 2020-21. In the year 2023-24 the profit decreased by 4% compared to year 2022-21. The profit again decreased by 30% in year 2024-25.

Impact

a. **Balance sheet**
Profit or loss after tax and before extraordinary items impacts on the reserves and surplus. As reserves and surplus is taken out from the profit earned, increase or decrease in profit/ loss after tax and before extraordinary items will directly affect in increase or decrease in reserves and surplus.

b. **Income Statement**
Profit or loss after tax and before extraordinary items is recorded in income statement. Increase or decrease in this will affect in increase in decrease in the profit or loss of the company.

c. **Cash Flow Statement**
Profit or loss after tax and before extraordinary items does not impacts cash flow statement as no cash transaction is done while recording this.

Findings

1. **Equity Share Capital**

The Equity Share Capital has increased by 1% for 5 years. The changes in Equity Share Capital affects the cash in balance sheet. In income statement there is no impact. In cash flow statement there will be changes in cash from financing activities.

2. **Reserves and Surplus**

The reserves and surplus have gradually increased by 70% for past 5 years. The change in reserves and surplus affects the assets in balance sheet. There will no impact in income statement. The cash flow statement is affected in cash operating activity.

3. **Long Term Borrowings**

The Long-term borrowings have gradually increased by 41% in past 5 years. The changes in long term borrowing impact in changes cash or assets. The changes in long term borrowings will impact income statement as interest paid. The impact in cash flow statement will be in cash from financing activity.

4. **Non-Current Liabilities**

The Non-Current Liabilities has increased by 40% in past 5 years. The changes in non-current liabilities will affect changes in cash in balance sheet. In income statement it affects as interest paid. In cash flow statement it affects in financing activities.

5. **Trade Payables**

The Trade Payables has decreased by 27% compared to year 2020-21. The changes in trade payables will affect the balance sheet in cash and cash equivalents. The changes do not impact income statement. In cash flow statement it impacts in operating activity.

6. **Current Liabilities**

The Current Liabilities has increased by 18% for past 5 years. The changes impact in balance sheet by changing in quick assets and cash. In income statement there will be no impact. In cash flow statement this affects in cash from operating activity.

7. **Tangible Assets**

The Tangible Assets has gradually increased by 52% for past 5 years. The changes in tangible assets affects borrowings in balance sheet. There will be no impact in income statement. The impact in cash flow statement will be in operation activity.

8. **Inventories**

The Inventories has increased by 85% in past 5 years. The increase in inventories will impact current liabilities. The impact in income statement will be indirectly in form of cost of materials consumed. The impact in cash flow statement will be in operating activity.

9. **Trade Receivables**

Trade Receivables has increased by 70% in past 5 years. The changes in trade receivables impact changes in reserves in balance sheet. There will be no impact in income statement. The changes in trade receivables impact in cash from operations in cash flow statement.

10. **Cash and Cash Equivalents**

The Cash and Cash Equivalents has decreased by 13% in past 5 years. The changes in this will impact liabilities in balance sheet. This does not affect income statement. Changes in cash will impact cash flow statement.

11. **Operating Revenue**

The Operating Revenue has increased by 81% in past 5 years. The changes in operating revenue indirectly impacts balance sheet. The impact of this in income statement changes the profit of the company. The changes in operating revenue indirectly impacts in cash flow statement.

12. **Total Expenses**

The Total Expense has gradually increased by 107% for past 5 years. The changes in total expenses affects the reserves and surplus in balance sheet. The changes in total expenses changes the profit of the company. The changes in this will also impacts in cash flow statement.

13. Profit/loss After tax and Before Extraordinary items

The Profit/loss After tax and Before Extraordinary items has decreased by 30% in past 5 years. The changes in this will impact the reserves in balance sheet. In income statement this is recorded. In cash flow statement this does not impact any changes.

Conclusion

The financial statement analysis of JSW steels over the five-year period reveals interrelation and impact of the Balance Sheet, Income Statement, and Cash Flow Statement reveals that all three financial statements are closely interconnected and mutually dependent in assessing a company's financial health. Changes in one statement directly influence the others — for instance, variations in income affect reserves and surplus, which in turn alter the equity section of the balance sheet and the cash flow from operations. the project demonstrates that understanding these interrelationships helps in evaluating the company's performance, liquidity, and profitability more effectively. It emphasizes the importance of integrated financial analysis for making informed managerial and investment decisions.

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