



‘A Comprehensive Analysis Of The Financial Statements Of Sos Children’s Villages, India’

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I. ABSTRACT :

This research project titled “A comprehensive analysis of the financial statements of SOS Children’s Villages, India” focuses on a thorough statistical graph-based analysis, temporal analysis based on 3 years of financial data, as well as horizontal analysis, vertical analysis and ratio analysis of the published financial statements of the SOS Children’s Villages, an international Non-Governmental Organisation that has spread its operations in India across 22 states, for the financial years (Financial Year 2019-2020 – Financial Year 2021-2022). From the research methodology, the financial trends and bifurcation of finance allocation are determined, thus proving the efficiency and effectiveness of fund utilization.

Key words : *Financial Statements, Non-Governmental-Organisation, Exploratory analysis*

II. PROBLEM STATEMENT

To analyse the financial performance as well as the financial position of SOS Children’s Villages, India in terms of liquidity, solvency, surplus earned/deficit incurred, and increase/decrease in its assets and liabilities.

III. NEED FOR RESEARCH

Non-Governmental Organisations operate with a non-profit motive, rather, their motive is to enhance social welfare in the domain that they are operating in. However, it is pivotal for such organisations too, to earn a surplus or reduce the deficits incurred by them, so as to ensure that they are able to optimally finance their operations through the funds received and can re-invest the surplus earned into the organisation in order to finance the activities in which finance is required. Moreover, sometimes incurring a deficit can be inevitable

due to a mismatch between excess expenses against funds received, or due to unforeseen increases in expenses, or it could be due to unstable economic conditions, etc. Hence, during such a situation it is important to reduce the magnitude of deficit incurred by the organisation. Thus, by conducting an analysis of financial statements, the stakeholders in an organisation including the general public will be able to significantly infer the financial performance, financial position and other key financial aspects of an organisation that includes the level of liquidity, solvency, going concern and many more. Moreover, the stakeholders can also make appropriate decisions based on the financial analysis of the components of the financial statements which is relevant to them.

IV. INTRODUCTION

SOS Children's Village is an international non-governmental organisation founded under the esteemed leadership of Austrian philanthropist Dr Hermann Gmeiner in 1949 in Austria with the motto of providing orphaned or abandoned children with family-like care, by placing them in homes with a "Mother" and other orphan children whom they regard to as brothers and sisters. The concept of "Mother" is very unique to this particular NGO, and this pertains to a woman who cares for the children placed under her care like her own children, even though there is no biological relation between them. Such kind of a setup paves the way for children to grow in a family-like environment with the required mental support, love and care.

Characteristic features of SOS Children's Village's framework :

- 16 family homes with 8-10 children per home with 1 mother per home.
- Family-like set-up and family-like bonding.
- Monthly budget books maintained by each house and expenditures made accordingly, aligning with family lifestyle.
- All the children attend formal schools and are supported to pursue degrees at colleges.
- Regular medical camps set up to ensure good health and sanitation for children.
- Regular observations made about the holistic development of the child.

The analysis of the financial statements of an entity aims to study its financial health through various aspects in order to give an overall conclusion pertaining to the going concern, financial performance and financial position through liquidity, solvency, profitability (in the case of business enterprises) or surplus generation (in the case of non-profit organisations) and analysing crucial trends and variations in significant financial statement components. This research aims to comprehensively examine the financial statements of SOS Children's Village India by conducting an exploratory and inferential analysis in order to determine the trends and draw inferences and conclusions from the data obtained from their financial reports.

V. REVIEW OF LITERATURE

(Kristaps Zdanovskis, *Methods of financial statement analysis for non-governmental organisations*, 2022) In this research paper, the authors aim to analyse the substance as well as identify the shortcomings of a comprehensive financial analysis of the Non-governmental organisation sector in order to determine the level of financial transparency of NGOs, since they are funded by the public. This paper intricately elucidates financial analysis methods including liquidity ratio, stability ratio, asset turnover ratio and many more in a concise and accurate manner. Hence, it is concluded saying that an NGO's results need to be compared with the industry average it is operating in, ensure the annual reports disclose all relevant information and also highlight the need to obtain insight into the financial condition of the entity while performing the financial analysis.

(Kuqi, 2019) This research paper revolves around the various aspects involved in conducting a financial statement analysis. It explains International Accounting Standards, and explains conducting a financial analysis using ratio analysis, namely, liquid ratio, profitability ratio, assets turnover ratio and ratio of long-term solvency.

(Srividhya, 2020) This particular research paper pertains to the financial performance of Planys Technologies Pvt. Ltd. India by conducting financial statements analysis using the tool of ratio analysis from data obtained through financial reports of a 5-year time period. The study interestingly reveals that the firm's financial performance is becoming better, however, needs to improve cash position and reduce operating expenses and gives more such suggestions.

(Enyi, 2019) The above mentioned research paper aims to derive a new method of financial statements analysis by combining both horizontal as well as vertical analysis methods to produce a new technique called relational trend analysis. The purpose behind doing so is the apparent imprecision as said by some, that is found in horizontal and vertical analysis, individually. In the findings of the paper, it is proven that Relational Trend Analysis overcomes the deficiencies of its fore-runners by proving financial analysis results to be of a greater precision.

(Eswari, 2020) This research paper focusses on the conducting of financial analysis Kumbakonam Central Co-operative Bank using secondary data obtained from the bank's financial reports to conduct ratio analysis including: liquidity ratios, profitability ratios and solvency ratios, through which the financial position of the firm is analysed and highlighted to the stakeholders including the general public, along with suggestions being given to improve its financial performance.

(Mr. R. Ramachandran, 2019) This research was undertaken by the authors to evaluate the financial performance of Alangulam Primary Agriculture Co-operative Credit Society, through financial statements analysis of the firm using secondary data obtained from the balance sheet of the years 2014-2019, by employing regression analysis, ratio analysis, comparative and common-size balance sheet, time series analysis in order to evaluate the profitability, efficiency; leverage of the firm.

(Aown Alshowishin, 2021) This research paper highlights the best practices which need to be followed while conducting the financial analysis of an entity. The author also highlights the goals of financial analysis which include permanent ability to pay, lasting ability to finance & invest, and many more, along with ensuring full security of financial transactions, minimizing risk, improving liquidity and ensuring full coverage of liabilities, hence obtaining a deeper insight into the conduct of financial statements analysis.

(Ms. Archana Kondguli, 2020) The author of this research paper aims to conduct an accurate, ratio-based (financial analysis tool) financial analysis in order to give an insight into the profitability and liquidity of TATA Consultancy Services, Ltd. The author draws inferences from the data analysis about the current assets

being insufficient, however, the overall solvency and liquidity being regarded as satisfactory. (Goyal, 2020) In this research paper, the author conducts financial statement analysis of 3 selected paper companies using secondary financial data obtained from annual reports of the firms for a period of 4 financial years starting from 2015-16 to 2018-19. After conducting the financial analysis through trend, ratio and comparative statements analysis for each of the 3 firms, the author compares the profitability, short-term financial position and other trends of the 3 selected companies. (Abdelsalam, 2020) Through this research paper, the author determines that Google LLC, an American multinational technology-oriented business firm has a profitable business, by conducting a ratio analysis for a 4-year time period 2016, 2017, 2018 and 2019, employing liquid ratios, profitability ratios and operational efficiency related ratios. The author, further mentions that this continued profitability of the business is ensured through diversification (hardware production and software development) of the firm's revenue streams and its strong brand reputation in the market. (REBACCAL. A, 2019) This research conducts an accurate financial analysis of the financial statements of a firm using trend percentage analysis. The authors have selected a sample of significant financial statement components including total fixed assets, total current assets, total income and profit after tax, and analysed the trend variations in terms of percentages in those components over a period of 5 financial years commencing from 2013-14 to 2017-18, thus drawing relevant inferences from the trend percentage analysis of the financial statements and highlight significant variations, hence, determining the overall financial health of the firm.

VI. OBJECTIVE OF THE RESEARCH

The objective of the research is to analyse the financial performance, financial position and going concern of SOS Children's Village, India on the basis of liquidity, solvency, variations in sources of funds and trends found in components of Balance Sheet and Income & Expenditure statements during the recent 3 financial years FY 2019-20, 2020-21, 2021-22.

VIII. RESEARCH METHODOLOGY

In this research, secondary data obtained from the financial statements of SOS Children's Villages, India, of the past 3 financial years : 2019-20, 2020-21, 2021-22 and the financial analysis was conducted using MS Excel software. It intricately explores the trends and variations using the techniques of financial data analysis by employing the quantitative data obtained from the financial statements of SOS Children's Village to hence derive significant inferences that highlight the financial health of the NGO through determining its level of financial performance and financial position.

The techniques of financial data analysis employed in this research are the following :

1. Ratio Analysis:

In this research, current ratio, total assets to debt ratio, debt to equity ratio and program expenses ratio is used for drawing inferences about the various dynamic financial perspectives.

2. Trend Percentage Analysis:

Taking the base year as financial year 2019-2020, the trends in expenses, donations received (funds), are estimated for the following 2 financial years using index numbers' concept.

3. Time-series Analysis (Horizontal Analysis – Comparative financial statements analysis)

A comparative analysis of both Income and Expenditure statements as well as Balance Sheet is conducted by assessing the absolute change & percentage change in the components of the financial statements during the financial years.

4. Cross-sectional Analysis (Vertical Analysis – Common-size Statements) :

The percentage of each component of the Balance Sheet in contributing towards its total is assessed in order to gauge the weightage of the components and hence determine the most prominent and high amount components of the Balance Sheet of the NGO: SOS Children's Villages, India.

5. Regression Analysis :

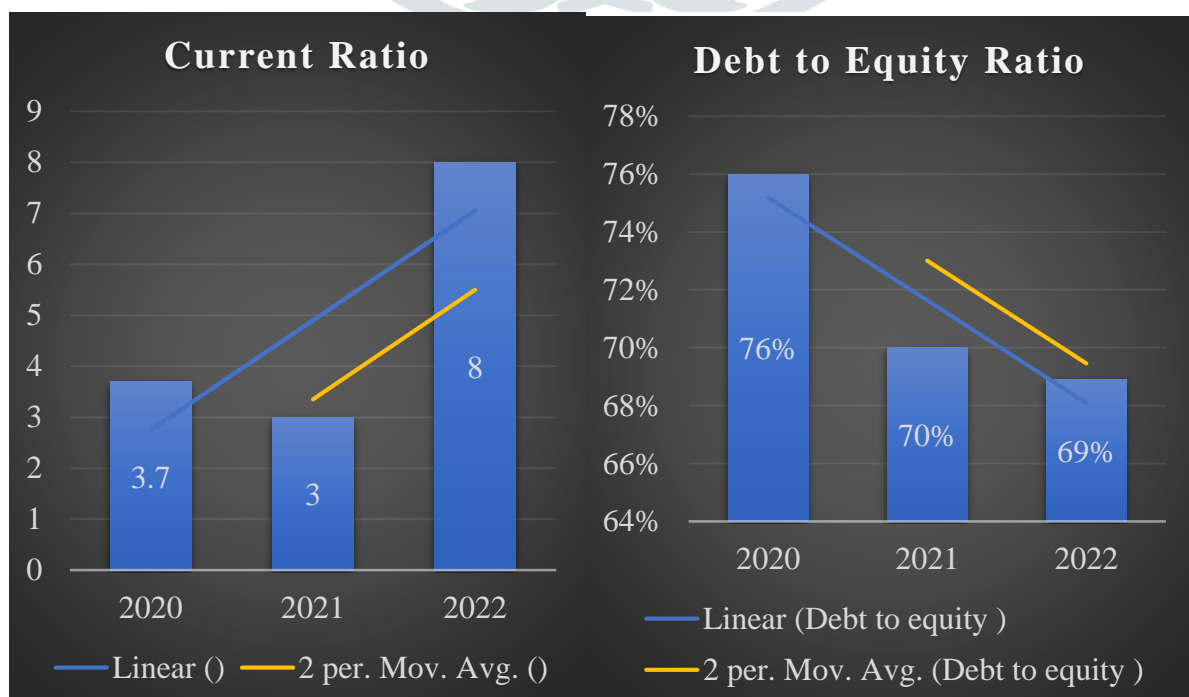
This involves deriving regression coefficient in order to determine the relation between funds received by the NGO and the surplus earned/deficit incurred by it.

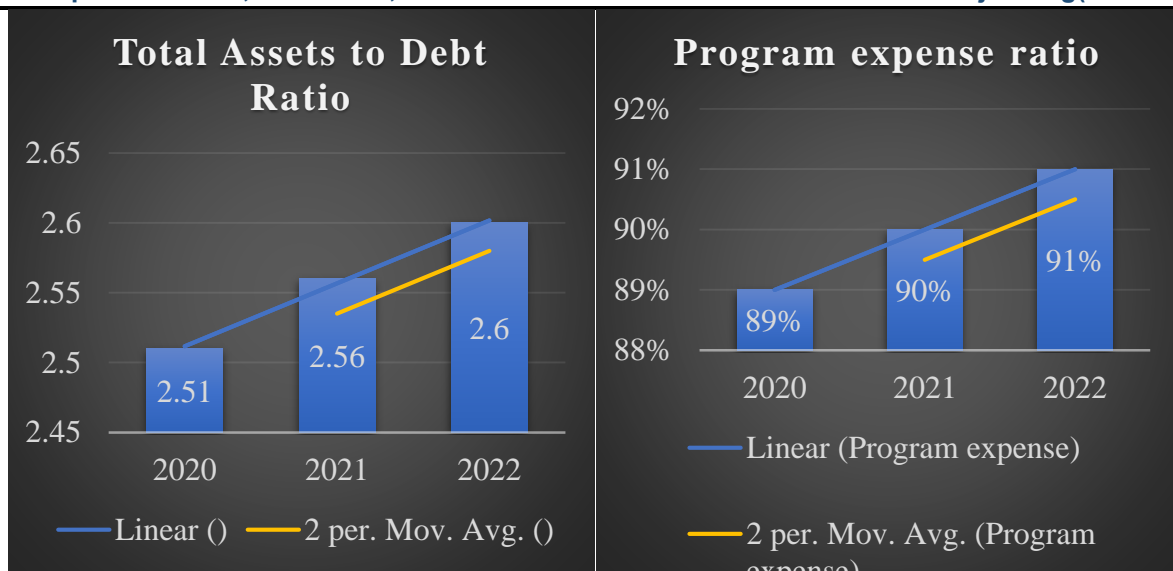
6. Graphical Analysis :

Bar graphs, pie charts, line graphs, scatter charts made in order to facilitate better understanding and comparison of financial data analysis.

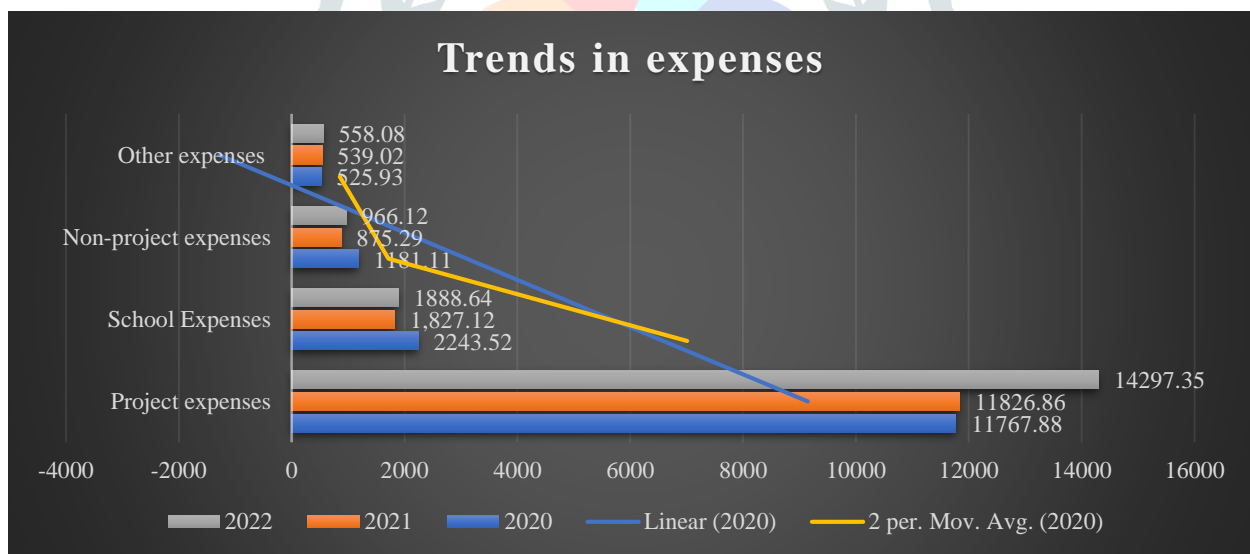
IX. ANALYSIS AND FINDINGS

1. Current ratio can be said to be in an acceptable range during the financial years 2019-2020 and 2020-2021, depicting the availability of adequate liquid cash at the NGO, however, in the financial year 2021-22, it can be observed through the ratio that an amount of excess cash from funds received is available with the NGO, which needs to be allocated by the NGO. Debt to equity ratio, total assets to debt ratio and program expense ratio can be said to be at an acceptable/appreciable range.





2. The values of the types of expenses include project expenses, school expenses, non-project expenses and other expenses, it is found that all the expenses being incurred by the organisation do not vary significantly over the 3 financial years except for project expenses which can be observed to have significantly increased in the financial year 2021-22, implying that the NGO has spent a significant amount of its income in expenses being incurred to support its goals of child-welfare through family-like care for orphan children and its other operations.



Overall expenses of SOS Children’s Village has increased by 13% in FY 2021-22, and this can be attributed to the post-pandemic situation during which schools were reopened and transportation resumed. Majority of the expenses can be attributed to project expenses and school expenses, and the least being non-project & other expenses which may include transportation expenses, administration expenses, etc. This indicates a systematic spending pattern followed by SOS Children’s Villages.

The NGO can be said to be receiving a majority of its donations from overseas/international donors which are steady, and which include SOS Children’s Villages, International, however, a sharp increase can be seen in domestic private funds received by the NGO in the financial year 2021-22 as compared to the previous financial

years. This implies that the NGO's outreach in India has increased which is the key factor behind the increased domestic donations, especially in the post-pandemic years.

Components	Particulars	2019-2020	2020-2021	2021-2022
Contribution from international donors	Values (in Rs. Lakhs)	5933.41	6205.48	6810.25
	Indices	100%	104.59%	114.78%
	Trend values	5001.12	5439.54	5877.96
Contribution from domestic donors	Values (in Rs. Lakhs)	5885.03	6103.93	8447.36
	Indices	100%	103.72%	143.54%
	Trend values	2968.61	4249.78	5530.94
Government Grants	Values (in Rs. Lakhs)	488.8	706.79	623.35
	Indices	100%	144.60%	127.53%
	Trend values	404.49	471.76	539.04

3. Through time series (horizontal analysis) of Statement of Profit & Loss and Balance Sheet it has been found that income has increased by 21% in FY 2021-22 as compared to decrease in income found in FY 2020-21, expenses have increased by 18% in FY 2021-22 due to increase in direct operating expenses under non-project expenses. In FY 2021-22, under non-current liabilities, funds received have increased by 3% and current liabilities have decreased by 54% implying that deposits received as well as deferred income have been utilised for its purposes.

4. Through cross-sectional (vertical analysis) of Balance Sheet for FY 2021-22, it is observed that funds received have increased to 67.55% in FY 2021-22 as compared to 65.16% in FY 2020-21, whereas, current liabilities have decreased to 3.05% (FY 2021-22) from 6.61% (FY 2020-21). On the other hand, non-current assets have reduced in its contribution towards total assets from 78.23% (FY 2020-21) to 75.61% (FY 2021-22) due to reduction in fixed assets due to depreciation, etc and a reduction in long-term investment, whereas, current assets have from 21.77% (FY2020-21) to 24.39% which can be mainly attributed to increase in cash and bank balances to 16.82% (FY2021-22), loans, advances and other recoverables to 2.47% (FY2021-22) and other current assets to 5.11% (FY2021-22).

5. Multiple R value is equal to 0.88. This implies a positive correlation between the variables. Hence, it can be inferred that as the funds received increase, the deficit decreases and might eventually lead to a surplus being generated by the NGO. That is why it is a positive correlation since deficit is a negative value and it is decreasing, but when it comes to surplus since it is a positive value, it would start increasing. Hence, the positive correlation is justified. It can be concluded that as the funds received increase over the years, the organisation will get to break even in terms of surplus earned/deficit incurred; would gradually move towards earning surplus.

Year	Total Funds received (in Rs, lakhs)	Deficit (in Rs, lakhs)
2020	12307.24	-803.58
2021	13016.2	-813.51
2022	15880.96	-781.2
<i>Regression Statistics</i>		
Multiple R		0.880845295
R Square		0.775888433
Adjusted R Square		0.551776867
Standard Error		11.08010467
Observations		3

X. SUGGESTIONS/RECOMMENDATIONS

Considering the situation of excessive liquidity found through the computation of current ratio (8:1), this highlights the need for investment of funds more effectively and efficiently by the NGO since excessive liquidity might lead to a reduction in its surplus generation abilities, it needs to be noted that this is a general scenario which pertains to all non-governmental organisations and other organisations too. Through trend percentage analysis, it was observed that there is a sharp increase in domestic funds received in FY 2021-22, as compared to FY 2020-21. Though such an increase is a positive indicator for the NGO, there is scope for attracting more funds from domestic sources as it is observed that the NGO is still relatively more reliant upon international sources of funds. Hence, SOS Children's Villages, India as well as other NGOs could improve fund-raising activities since funds are the lifeblood of NGOs in general, moreover, domestic outreach needs to be more encouraged due to the economic feasibility, flexibility, efficiency as well as effectiveness involved in domestic outreach. Moreover, designing a domestic outreach would be comparatively easier and quicker for NGOs to raise funds as the target population of the NGO's domestic outreach can be understood through observation, and a fund raising activity based on such an observation made would be more effective for NGOs. Also, not all NGOs might be having global reach, hence, domestic fund raising activities need to be regarded as pivotal in such cases. Thus, domestic fund raising by NGOs need to be encouraged.

XI. CONCLUSION

Even though through financial analysis it was found that SOS Children's Villages, India is steadily reducing deficits incurred and moving towards a break-even point, and then eventually incurring profits, it was observed that there was no major compromise made by the NGO when it came to supporting the children and the Mothers. They are ensuring that the children and mothers are provided all the support needed by them and this is appreciable. It is noteworthy to mention that SOS Children's Villages has received the highest CRISIL rating for its outstanding vision and performance as compared to other non-governmental organisations, in the financial year 2017-18. This majorly contributes towards its goodwill and serves as a driving force towards more funds being received by SOS Children's Villages. SOS Children's Villages, India can be seen to have an

improving financial performance which might soon enable the organisation to earn a surplus in the coming financial years.

Analysing and comprehending an organisation's financial health is a fundamental step towards understanding the current financial scenario of an enterprise and formulating appropriate strategies, and procedures to implement it based on results derived through conducting a financial analysis which would, in turn, enable the organisation to achieve its financial objectives which are vital to ensure that the organisation can achieve financial harmony and conduct its operations effectively, efficiently and also meet its liquidity, solvency, credibility requirements. Hence, the conduct of financial analysis in NGOs, as well as all organisations, would contribute immensely towards financial progress and increasing financial transparency of organisations.

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