



Financial Statement Analysis

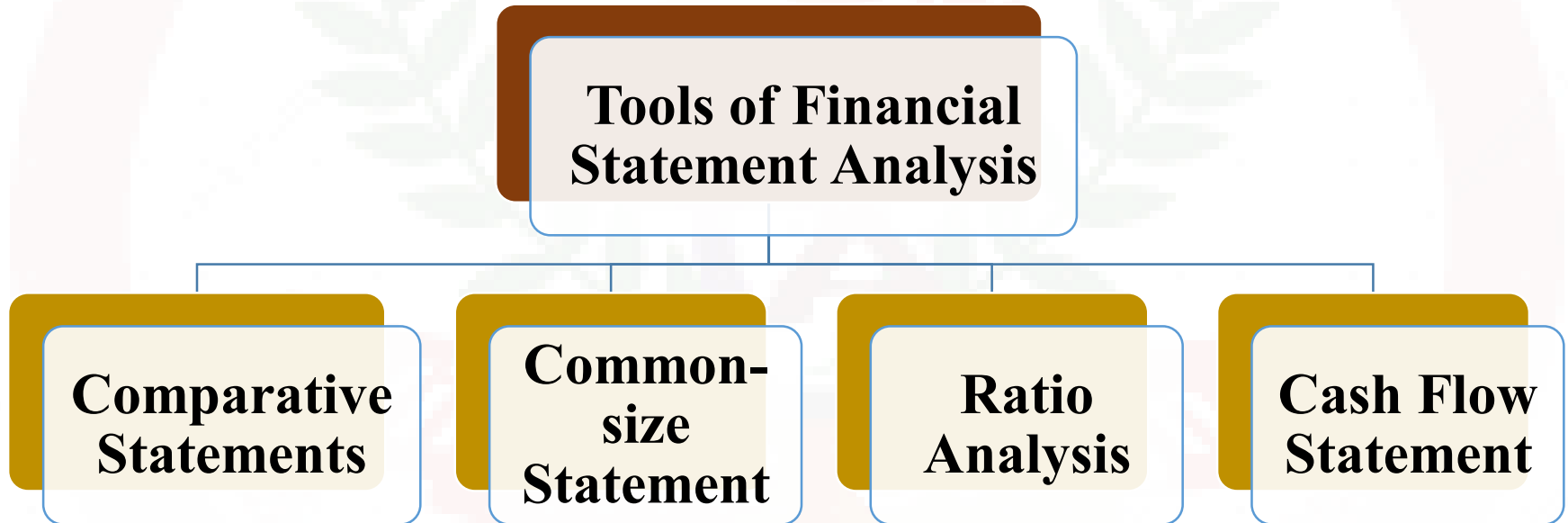
Meaning

Analysis of Financial Statement is a systematic process of analyzing the financial information in the financial statements to understand and take economic decisions.

“Financial Statements Analysis is largely a study of relationships among the various financial factors in a business, as disclosed by a single set of statements, and a study of trends of these factors, as shown in a series of statement.”

-John N. Myer

Tools or Techniques of Financial Statement Analysis



Types of Financial Statement Analysis

External Analysis:- It is conducted by those who do not have access to the detailed records of an enterprise and, therefore, have to depend on published accounts, like investors, creditors, government etc.

Internal Analysis:- It is conducted by the management to know the financial position and financial performance of the organization, so that the decisions can be taken for the future.

Horizontal Analysis:- This analysis is made to analyse financial statement for a number of years. It is a time series analysis.

Vertical Analysis:- This analysis is made to analyse the financial statements of one year only.

Objectives and Significance of Financial Statement Analysis

1. Assessing the Earning Capacity or Profitability

2. Assessing the Managerial Efficiency

3. Assessing the Short-term and Long-term Solvency Position

4. Making Inter-firm Comparison

5. Forecasting and Preparing Budgets

6. Making Explainable and Understandable

Limitations of Financial Statement Analysis

1. Historical Analysis

2. Ignores Qualitative Aspect

3. Ignores Price Level Changes

4. Not Free from Bias

5. Variation in Accounting Practices

6. Affected from Window Dressing

7. Identifies Symptoms but does not offer its Diagnosis

8. Suffers from the Limitations of Financial Statements