Financial Statement Analysis

Financial Analysis and Financial ***Statement*** Analysis are sometimes used interchangeably. But there is a subtle difference between the two.

Financial analysis is financial analysis of a general nature. Financial ***statement*** analysis is financial analysis performed specifically on the different financial statements that result from the completion of the accounting cycle. There are three principles financial statements: income statement, balance sheet, and cash flow statement.

Financial statement analysis involves using statistics of key financial variables in the financial statements to gain insight into the health and potential future performance of a firm. Financial statements serve as "box score" or a statistical summary of a firm's performance. And financial statement analysis attempts to makes sense of that box score.

Financial statement analysis is the key duty within financial analysis; and financial analysis is unquestionably the most effective type of analysis for determining the true health and prospects of a firm. Any sensible investment strategy will rely on financial analysis in general and financial statement analysis in particular.

One of the most important tasks within financial statement analysis is creating pro form (projected or forecasted) financial statements. However, pro forma financial statements are largely the by-product of calculating, interpreting and forecasting financial ratios. Therefore, financial ratio interpretation and analysis is one of the key duties within financial statement analysis.