# Financial Statement Analysis

# The Financial Statement analysis consists of part I, II and III. The Part I is a brief introduction, studied and explain in single items in each of statement. It set the foundation and will be easier to be understood in part II. The part II was studied across the three statement and were dive in more deeper and depth of the company financial.

# Lastly in part III, the forensic studied of the company financial. It is thoroughly gone through all the financial statement that whether the company intentionally or unintentionally manipulates the financial statement through any financial accounting practices and suspecting financial items.

# Financial statement Analysis Part I

* **Financial statement Analysis Part II**
* **Financial statement Analysis Part III**

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**Financial statement Analysis Part I**

# Three Financial statement are:

# Profit and Loss Statement

# Balance Sheet

# Cash Flow statement

# Profit and Loss Statement is used to determine the performance of the company. While understand the company performance is important, we would also need to know more of its financial condition and cashflow position. So, we have the Balance sheet and the cashflow statements. Balance Sheet is used to determine the financial condition of the company while Cashflow statement is used to determine the company’s cashflow.

# 1.Profit and Loss Statement

# The Profit and loss statement is a financial statement that summarises the revenues, cost, and expenses incurred during a specified period, normally over a quarter or fiscal year. It also provides useful piece of information of the company ability to generate profit given a specified period.

# The Profit and Loss statement is often compared quarter over quarter or year over year. It is because we need to know over a year period or the same quarter at previous year, whether the company have been increasing revenue or reducing costs. From this observation, we may also see whether if there is a seasonal cycle of the product or services over time.

# We also look into the current trend of the revenues and the cost. It is to know whether the management have been putting up the effort on sales and keeping the cost low. However, we also need to know the company is in which stage of the business lifecycle.

# The overall trend is another aspect that we will be looking at it. It will be a course of study of the profit and loss statement of at least 3 years. This can be young company that we will study on. Of course, if there’s necessary a 5 years trend will be studied or even 10 years trend for an established company.

However, if solely based on this statement is not sufficient to know the depth of the company financial. It is therefore advisable to use together with balance sheet and cashflow statement. We will be discussed more on financial statement Analysis Part II.

# Last but not the least, we need to know that this statement is often recorded accrual basis rather than cash basis. For accrual basis, it is recorded of all expenses and incomes whether payment or goods are exchanged or not.

# Now, we dive into the profit and loss statement. We have to break into three parts.

# The Three parts are:

# Direct Profit from Product or services

# Operating Costs and Expenses

# Business Costs

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# 2.Balance Sheet

# It breaks into three parts:

# Asset

# Liability

# Owner’s Equity

# Margin of Safety (for Company whose’s asset is most if not all physical type of asset)

# The Net Asset value

# The owner’s equity is important as we need to know the capital tat the owner have pt into the business.

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# 3.Cashflow Statement

# It breaks into three parts:

# Cashflow from operating

# Cashflow from investing

# Cashflow from Financing

# One of the most important cashflow metric is the Free Cash Flow. It is a measure of the company cashflow after cash is being used for the company maintenance fee, Property and Equipment fee or any other expandable asset for business expansion.

# The Free cashflow is important as the leftover cash are used to support daily business activity or any future investment whenever opportunity arises.

# It is from the net cashflow from the operating and subtract off any capital expenditures. The capital expenditure as mentioned earlier are all the maintenance company need to fulfil to run the business. The formula as follow:

# Free Cashflow = Net Operating Cashflow – Capital Expenditures

# For example,

# Net cashflow from operating is 113 M (under the cashflow from operating section)

# Capital Expenditures is 67.9M (under the cashflow from investing section)

# We will have a Free cashflow of 45.1M.

# As 113M -67.9M =45.1M.

# We will further our analysis for the free cash flow analysis with other type of metrics in financial statement analysis Part II.

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Sample -discuss on free cash flow only, with more ,please contact [neojxg@gmail.com](mailto:neojxg@gmail.com)