

1.

WHAT ARE FINANCIAL STATEMENTS?

Financial statements are formal records that outline the financial activities and position of a business, providing valuable insights into its performance and financial health.

They help stakeholders, including investors, creditors, and management, make informed decisions by assessing the company's profitability, liquidity, solvency, and overall financial condition.

2.

TYPES OF FINANCIAL STATEMENTS		
Balance Sheet	Income Statement	Cash Flow Statement
A snapshot of a company's financial position at a specific point in time, detailing its assets, liabilities, and shareholders' equity.	Summarizes the revenues, expenses, and net income (or loss) generated by a company over a specific period, typically a quarter or a year.	Tracks the inflow and outflow of cash and cash equivalents from operating, investing, and financing activities during a specified period.

3.

INTERPRETATION		
Liquidity		Solvency
Liquidity is primarily assessed through the balance sheet, focusing on the composition and adequacy of a company's current assets in relation to its current liabilities.	Assessment	Solvency is evaluated by analyzing a company's long-term financial commitments and its ability to meet them over time.
Current Ratio: Dividing current assets by current liabilities to measure the company's ability to cover short-term obligations. Quick Ratio: Similar to the current ratio but excludes inventories from current assets to provide a more conservative measure of liquidity.	Key Metrics	Debt-to-Equity Ratio: Comparing total debt to total equity to assess the company's reliance on debt financing relative to shareholders' equity. Interest Coverage Ratio: Calculating earnings before interest and taxes (EBIT) divided by interest expenses to gauge the company's ability to cover interest payments with operating income.
A high current ratio and quick ratio indicate strong liquidity, suggesting that the company can readily meet its short-term financial obligations without relying heavily on inventory or other less liquid assets.	Analysis	A low debt-to-equity ratio and a high interest coverage ratio suggest strong solvency, indicating that the company has a healthy balance between debt and equity and generates sufficient income to cover interest expenses.
Profitability		Efficiency
Profitability is evaluated by analyzing the income statement to assess the company's ability to generate profits from its operations.	Assessment	Efficiency is assessed by analyzing the income statement and balance sheet to evaluate how effectively the company utilizes its resources to generate revenue.
Gross Profit Margin: Calculating gross profit as a percentage of revenue to measure the efficiency of production and pricing. Net Profit Margin: Dividing net income by revenue to assess the company's overall profitability after accounting for all expenses and taxes.	Key Metrics	Asset Turnover Ratio: Dividing revenue by total assets to measure the company's ability to generate sales relative to its asset base. Inventory Turnover Ratio: Calculating cost of goods sold divided by average inventory to assess how quickly the company sells and replaces its inventory.
A high gross profit margin and net profit margin indicate strong profitability, suggesting that the company is effectively managing costs and generating healthy profits from its core business activities.	Analysis	A high asset turnover ratio and inventory turnover ratio indicate efficient use of resources, suggesting that the company is maximizing revenue generation and minimizing excess inventory holding costs.

4.

ANALYSIS TECHNIQUES		
Horizontal Analysis	Vertical Analysis	Ratio Analysis
Compares financial data over multiple periods to identify trends and changes.	Expresses each line item on a financial statement as a percentage of a base figure to analyze proportions and trends.	Involves calculating and interpreting financial ratios to assess various aspects of a company's performance, financial health, and efficiency.