Financial analysis

Financial analysis is the process of assessing a company's performance and financial standing by reviewing its financial statements, including the balance sheet, income statement, and cash flow statement.
Financial analysis allows analysts and investors to evaluate a company's *profitability, liquidity, operational efficiency, solvency, and risk.*

Accounting in Financial Analysis.

- ➔ *Accounting is a systematic process through which the monetary effects of business transactions are tracked, recorded and summarised.*

Accounting provides the information needed to make business decisions as well as to evaluate the outcomes of such decisions. The data used in financial analysis is derived from a company's financial accounting records. Financial accounting, explored within this course is prepared for external users who may wish to understand the financial activities of a business.

- ➔ ***Data in Financial Analysis ~ Company's Financial Accounting records.***

What to focus on in the balance sheet?

While the basic purpose of the balance sheet is to reveal the financial status of an organisation, different users may focus on different information within the statement, depending on their own needs.

Shareholders

Shareholders might want to learn about the amount of cash on the balance sheet to see if there is enough available to pay them a dividend and run the business effectively. Based on this judgment, they might need to consider investing additional funds in the business.

Creditors

Creditors might focus on the total amount of debt on the balance sheet relative to the total amount of financing provided by the owners of the company (i.e., equity) to assess whether the company has borrowed too much and might be in danger of not being able to pay the debt back.

A potential acquirer of the business might analyse the balance sheet to see if there are any assets (e.g., excess property or equipment) that could potentially be sold without harming the underlying business.