

Overview - Fundamentals - I

Overall, if conducting a financial analysis, these three documents produced by an organisation, contain the necessary information to gain insight into the financial health of an organisation.

- Balance Sheet - The balance sheet provides details on a company's liabilities, including current liabilities (short-term debt) and long-term debt. The balance sheet also shows total shareholders' equity which is needed to calculate the debt-to-equity ratio.
- Income Statement - The income statement reports a company's revenues and expenses over a period of time. Gross profit and net income figures can be used to calculate profitability ratios like profit margin.
- Cash Flow Statement - The cash flow statement shows how cash moves in and out of a business, which provides insight into debt repayment ability. Cash from operations can be used to analyse revenue growth.

The purpose of the balance sheet

- The balance sheet portrays the financial position of the company at a particular point in time.
- The financial position is reflected by a list of assets, liabilities and stockholder's equity.
- Information is more relevant when balance sheets for several consecutive periods are presented together in the same report.

The purpose of the income statement

- The Income statement is also called 'the statement of operations' or 'the profit and loss account'.
- The income statement measures the operating performance of a company over a time period such as a year or a quarter.
- The income statement presents an ordered list, grouped by broad categories of revenues and expenses.
- The list always begins with revenues followed by several expenses.
- The income statement reports the net income (or net loss) for the reporting period.

The purpose of the cash flow statement

- Cash flow is not the same as profit. Profit measures how much wealth a business has generated. Cash flow tells you how much of that has been realised in cash in the period.
- We know that there are three fundamental business activities: operating, investing and financing. We can think about this in terms of cash flow. The cash flow statement is organised in the same way