

Internet financial statement analysis assignment

[Technology](#), [Internet](#)



An entity performing business needs some means in the form of financial statements to measure its performance, be it for internal usage or as an information to the external parties. To the management, it helps to assist in decision making process. To the external parties, it gives an insight on the company performance. One aspect of the information looks at the general, qualitative measure factors of a company. The other side considers tangible and measurable factors (quantitative measure). The quantitative measure is the main focus here, where focus on various financial analysis techniques will be discussed.

Financial statements, such as balance sheet, profit and loss (income statement) and cash flow statement give a quantitative information that measures the performance of a company in a period of operation. Various analysis techniques can be performed on these financial statements. Horizontal analysis is one technique to measure the performance of a company. In the analysis, each expense item of a given year is divided by the same expense item in the base year, taken in percentage. Because it is usually compared between two consecutive years, it provides an indication whether the business has recorded an increase or decrease in the relevant expense item. Obviously, an increase would indicate that the business has performed exceptionally well, and a decrease would otherwise indicate low performance.

Vertical analysis is another analysis technique, achieved through dividing each expense item in the income statement of a given year by the 'Net sales', an expressed as percentage. The result will allow the company to identify expense item that rises either quickly or slowly than a change in the

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sales. In terms of efficiency, a ratio between total wages against the net sales generated throughout the period gives information about how much wages that can generate revenues to the company. This gives an insight to the management on efficiency rate that contributed to the wealth of the company.

Vertical analysis is used as a benchmark to compare a business's performance against the competitors. This would allow the management to analyze and thus improve the operation through cost reduction or efficiency improvement. Trend analysis is a hybrid of horizontal analysis in a way that it compares the ratios over a period of several years of operation, usually five or ten years. This provides a valuable insight to the management as well as to the outside parties, such as the investors to measure the performance of a company after several years of operation. The ratio, measured in percentage, is taken by selecting a base year (usually the earliest year), and compares the value of each ratio of other operating years against the base year.

Ratio given by the trend analysis provides the overall performance of the company. For instance, in analyzing the net sales over a period of several operating years can give valuable information on how well the company managed to generate the revenue. An increasing trend indicates that the company is making more profit every year. This would allow the management to take advantage to encourage outside parties to invest in the company, given that it has a proven record of the ability to increase the profit each year.

Ratio analysis is not just comparing different numbers from the balance sheet, income statement, and cash flow statement. It is comparing the number against previous years, other companies, the industry, or even the economy in general. Ratios look at the relationships between individual values and relate them to how a company has performed in the past, and might perform in the future.

Ratio analysis also enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. Ratios of the company are compared with the average of businesses similar to company. It may provide the all-important early warning indications that allow the business owner to solve business problems before the business lose its competitiveness.