Analysis of Income Statement Harvard Case Solution & Analysis

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Definition

Financial statement analysis (or financial analysis) is the process of reviewing and analyzing a company's financial statements to make better economic decisions. These statements include the income statement, balance sheet, statement of cash flows, and a statement of retained earnings.

The Purpose of Financial Statements Analysis

1. To help assess the financial position and performance.
2. To compare the position and performance of the company's financial position and financial performance of the company concerned in the past, other companies and industries.
3. To help users of financial statements to make decisions

According to Bernstein (1983) another purpose of Financial Statements Analysis are :

1. Screening
2. Forcasting
3. Diagnosis
4. Evaluation
5. Understanding

The Disadvantage of Financial Statements Analysis

1. The financial statements analysis are based on financial statements
2. The object of financial statements analysis only a report
3. The object of analysis is historical data

The Advantage of Financial Statement Analysis

1. Can provide more extensive information, deeper than there are of regular financial reports.
2. It can gather explicit information of a financial statement.
3. Dapat mengidentifikasi kesalahan yang terdapat dalam laporan keuangan.
4. Knowing the properties of a relationship that could birth the models and theories that are in the field as for the prediction, increased.

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Financial Statement Analysis Method

There are two key methods for analyzing financial statements. The first method is the use of horizontal and vertical analysis.

Horizontal Analysis

Horizontal analysis is a methods of analysis is done by comparing the financial statements for several periods so that it can be seen developments and trends.

The analysis technique :

(a) Comparative Analysis
(b) Trend Analysis
(c) Analysis of Sources and Use of Funds
(d) Analysis of Changes in Gross Profit

Veritical Analysis

Vertical analysis method is a method of analysis that is done by analyzing the financial statements on a specific period by comparing one post with another post on the same financial statements.

The analysis technique :

(a) Common Size Analysis
(b) Ratio Analysis
(c) Break-even Analysis

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