## What is 'Financial Statement Analysis'

Financial statement analysis is the process of reviewing and evaluating a company's [financial statements](http://www.investopedia.com/terms/f/financial-statements.asp) (such as the [balance sheet](http://www.investopedia.com/terms/b/balancesheet.asp) or profit and loss statement), thereby gaining an understanding of the [financial health](http://www.investopedia.com/terms/b/balancesheet.asp) of the company and enabling more effective decision making. Financial statements record financial data; however, this information must be evaluated through [financial statement](http://www.investopedia.com/terms/s/statement-of-retained-earnings.asp) analysis to become more useful to investors, shareholders, managers and other interested parties.  
**Financial Statement Analysis**

Each financial statement provides multiple years of data. Used together analysts can track performance measures across financial statements using several different methods for financial statement analysis, including vertical and horizontal analysis. An example of vertical analysis is when each line item on the financial statement is listed as a percentage of another. Horizontal analysis compares line items in each financial statement against previous time periods. In ratio analysis, line items from one financial statement are compared with line items from another. For example, many analysts like to know how many times a company can pay off debt with current earnings. Analysts can do this by dividing debt, which comes from the balance sheet, by net income, which comes from the income statement. Likewise, return on assets (ROA) and the return on equity (ROE) compare company net income found on the income statement with assets and stockholders' equity as found on the balance sheet.

**Objectives of Financial Statement**

The financial statement is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

1. To ensure regular and adequate supply of funds to the concern.
2. To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
3. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
4. To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
5. To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.