**Analysis of Financial Performance: Concepts and Importance**

Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of [finance risk management](https://www.simplilearn.com/resources/finance-management-articles). It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Firms and interested groups such as managers, shareholders, creditors, and tax authorities look to answer important questions like :

**1. What is the financial position of the firm at a given point of time?**

**2. How is the Financial Performance of the firm over a given period of time?**

These questions can be answered with the help of a [financial analysis](https://www.simplilearn.com/financial-analysis-framework-and-applications-technique-rar212-article) of a firm. Financial analysis involves the use of financial statements. A financial statement is a collection of data that is organized according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm.

It may show a position of a period of time as in the case of a Balance Sheet, or may reveal a series of activities over a given period of time, as in the case of an Income Statement. Thus, the term ‘financial statements’ generally refers to two basic statements: the Balance Sheet and the [Income Statement](https://www.simplilearn.com/income-statements-rar179-article).

The Balance Sheet shows the financial position (condition) of the firm at a given point of time. It provides a snapshot that may be regarded as a static picture. “Balance sheet is a summary of a firm’s financial position on a given date that shows

Total assets = Total liabilities + Owner’s equity.”

The [Income Statement](https://en.wikipedia.org/wiki/Income_statement) (referred to in India as the profit and loss statement) reflects the performance of the firm over a period of time. “Income statement is a summary of a firm’s business revenues and expenses over a specified period, ending with net income or loss for the period.”

However, financial statements do not reveal all the information related to the financial operations of a firm, but they furnish some extremely useful information, which highlights two important factors profitability and financial soundness.

## ****Financial Performance Analysis****

Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business. The financial analyst program provides vital methodologies of financial analysis.

### ****Areas of Financial Performance Analysis:****

Financial analysts often assess the firm's production and productivity performance (total business performance), profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. Various financial ratios analysis includes

1. Working capital Analysis

2. Financial structure Analysis

3. Activity Analysis

4. Profitability Analysis

### ****Significance of Financial Performance Measurement****:

The interest of various related groups is affected by the financial performance of a firm. The type of analysis varies according to the specific interest of the party Involved:

* **Trade creditors:**interested in the liquidity of the firm (appraisal of firm’s liquidity)
* **Bond holders:** interested in the cash-flow ability of the firm (appraisal of firm’s capital structure, the major sources and uses of funds, profitability over time, and projection of future profitability)
* **Investors:**interested in present and expected future earnings as well as stability of these earnings (appraisal of firm’s profitability and financial condition)
* **Management:** interested in internal control, better financial condition and better performance (appraisal of firm’s present financial condition, evaluation of opportunities in relation to this current position, return on investment provided by various assets of the company etc.)

## **Conclusion**

A Financial Performance Report is a summary of Financial Performance of a Company that reports the financial health of a company helping various investors and stakeholders take their investment decision.