

2.5: Key Takeaways

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The income statement, balance sheet and statement of cash flows provide significant information which management and analysts can use to diagnose potential strengths and weaknesses of the firm. While the statement of cash flows provides significant information in its original format, the data from the income statement and balance sheet can provide additional insights through the use of financial ratios and common size statements. Despite the ability of financial statement analysis to provide insights into the firm's performance, it can be challenging to get the full benefits from this tool in a finance professional's kit. The reason for this challenge is that context is essential to interpreting the results of such analysis and that even with the appropriate context, it can be difficult to correctly diagnose opportunities and problems. Context can be provided by trend and comparative analysis along with understanding the dynamics of the firm and its environment.

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