What is Financial Statement Analysis?

Worksheet

Financial statement analysis examines a company's financial statements to assess profitability, liquidity, efficiency, and solvency using ratios and trend analysis. It reveals financial health and investment quality.

Questions

1. Financial statement analysis helps investors…

A) Guarantee stock price increases
B) Assess company profitability, health, and investment quality
C) Avoid paying taxes
D) Predict exact earnings

2. If Company A has net margin 20% and Company B has 10% (same revenue), which is more profitable?

A) Company B
B) Company A
C) They're equally profitable
D) Can't tell from this data

3. Return on equity (ROE) measures…

A) Revenue ÷ liabilities
B) Net income ÷ shareholder equity
C) Assets ÷ cash flow
D) Expenses ÷ revenue

4. Free cash flow is…

A) Money from borrowing
B) Operating cash flow − capital expenditures
C) Total revenue
D) Net income before taxes

5. Company A reports revenue 1M, net income150K. Company B: revenue 2M, net income100K. Which is more profitable (by margin)?

6. A company has assets of 5M, liabilities of2M. What is the debt-to-equity ratio?

7. A company reports operating cash flow of 500K, capital expenditures of150K. What is free cash flow?

8. Define: What is financial statement analysis?

9. Define: Three core financial statements?

10. Define: What is net profit margin?

Answer Key

1. B) Assess company profitability, health, and investment quality — Analysis evaluates financial health and performance, not guarantees returns or eliminates uncertainty.

2. B) Company A — Higher net margin = higher profit per dollar of sales; Company A converts sales to profit more efficiently.

3. B) Net income ÷ shareholder equity — ROE = Net Income / Equity; shows how effectively a company uses shareholder capital to generate profit.

4. B) Operating cash flow − capital expenditures — Free cash flow is cash available after reinvestment in assets; used for dividends, debt, or growth.

5. Net profit margin = Net Income / Revenue Company A: 150K /1M = 15% Company B: 100K /2M = 5% Company A is more profitable per dollar of sales despite lower total income

6. Equity = Assets − Liabilities = 5M −2M = 3M Debt-to-equity = Liabilities / Equity =2M / 3M = 0.67 For every1 in equity, company owes $0.67 in debt (reasonable leverage)

7. Free cash flow = Operating cash flow − Capital expenditures Free cash flow = 500K −150K = $350K This is cash available for dividends, debt repayment, or growth

8. Examining company financial statements to assess profitability, health, efficiency, and ability to meet obligations.

9. Income (profit/loss), Balance Sheet (assets/liabilities/equity), Cash Flow (operating/investing/financing).

10. Net income ÷ revenue; percentage of each sales dollar that becomes profit. Higher = better profitability.