**Ch-10: Financial Statements Analysis**

The process of critical evaluation of the financial information contained in the financial statements in order to understand and make decisions regarding the operations of the firm is called ‘Financial Statement Analysis’.

**OBJECTIVES OF FINANCIAL STATEMENTS:-**

(a) To assess the profitability of the organization.

(b) To assess the operational efficiency.

(c) To judge the financial health of the organization.

(d) To assess the solvency position of the organization.

**Limitations of Financial Statements:-**

(a) Financial analysis does not consider price level changes.

(b) Financial analysis may be misleading without the knowledge of the changes in accounting procedure followed by a firm.

(c) Financial analysis is just a study of reports of the company.

(d) Monetary information alone is considered in financial analysis while non- monetary aspects are ignored.

(e) The financial statements are prepared on the basis of accounting concept, as such, it does not reflect the current position.

**Importance/significance of financial analysis:**

(1) Significance for management:-

(2) Significance for investors:-

(3) Significance for Government:-

(4) Significance for financial institutions:-

(5) Significance for employees:-

**PRACTICE QUESTIONS:-**

(1) What do you mean by financial statements analysis?

(2) State any four limitations of financial analysis.

(3) State any four limitations of financial analysis.