CAB Training Cards

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Demystifying Financial Statements

1. Financial statements are written and certified reports which reflect the financial position, financial performance, solvency, and liquidity of an enterprise on a going concern principle.

2. Balance Sheet, Profit & Loss Account, Cash Flow Statement, and Statement of Changes in Equity taken together are called financial statements. In addition, the statement of Significant Accounting Policies, Disclosures, and Statutory Audit Report are considered essential ingredients of the financial statements.

3. There are five elements in a financial statement, namely, Assets, Liabilities, Equity, Income, and Expenditure. The process flow involved in accounting begins with a Journal followed by Ledgers, Trail Balance, and Final Accounts.

4. Assets = Equity + Liabilities' is the fundamental accounting equation used in the mercantile system of double entry accounting, where every debit entry is matched by a corresponding credit entry and vice versa.

5. Financial Statements in India are prepared based on Generally Accepted Accounting Principles (GAAP) and Accounting Standards put in place by the Institute of Chartered Accountants of India (ICAI).

6. For banks operating in India, the Reserve Bank of India has prescribed a format for the Balance Sheet, and Profit & Loss Account, and has also mandated certain provisioning and disclosure requirements.

7. Examination of the adequacy of provisions, assessment of the quality and realizability of assets, scrutiny of liquidity mismatches, and evaluation of disclosures, are the four pillars of the financial analysis.

8. Financial analysis involves techniques for interpreting financial statements so as to draw meaningful conclusions about financial strength, solvency, profitability, efficiency, risk, and future prospects of an enterprise.

9. Common Size Analysis, Trend Analysis, Ratio Analysis, Du-Pont Analysis, Break Even Analysis, Cash Flow Analysis, Funds Flow Analysis, Operating Cycle Analysis, etc. are some of the useful techniques for financial analysis.

10. Profitability, Turnover, Leverage, Solvency, and Liquidity are the most useful groups of financial ratios. Analysis of Cash Flow involves assessment and interpretation of the Operating Cash Flows, Financing Cash Flows, and Investing Cash Flows.

11. Developing an insight in to financial analysis and interpretation requires skill, judgement, experience, and zeal for continual improvements through back-testing.

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