

Financial Statement Analysis

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Helping You with Financial Statement Analysis

Accounting is the language of business and to become a successful investor, you also have to think like a businessman.

Warren Buffett said that

“I am a better investor because I am a businessman and a better businessman because I am an investor.”

In other words, business and investing is so closely intertwined that you can not separate it. In order to be a great investor, understanding accounting and performing **financial statement analysis** is a top priority in your growth as an investor.

I personally struggled a lot with financial statement analysis. Coming from a background with no financial degree or any education in finance, it was difficult to self learn how to analyze financial statements.

But because I went through the hardship of reading many books, magazines, articles and tutorials to improve my knowledge of accounting and the analysis of financial statements, the following articles will make your journey somewhat easier.

(a great pdf article on an [introduction to financial statement analysis](#))

How to Master Analyzing the Income Statement

The financial statement is divided into three sections. The income statement is the first part of the financial statement and gets the most attention because it is where the numbers for revenue, net income and earnings per share lives.

This tutorial of the income statement analysis will provide you with insight on how to not just read the income statement, but provide insights on what other points you have to consider as you analyze the income statement in your financial statement analysis.

(a great pdf article on the [income statement](#))

How to Master Analyzing the Balance Sheet

By understanding the balance sheet, you will be able to gain valuable insight into the financial health of the company. This article uses Circuit City as an example to see why the company went bankrupt.

(a great pdf article on the [balance sheet](#))

How to Master Analyzing the Cash Flow Statement

The cash flow statement is a little different than the income statement and balance sheet, because while you can easily compare income statements by quarter, the cash flow statement is more “accrual”. This means that numbers in the cash flow statement add up or accrue throughout the fiscal year.

Best to go read the final section of the financial statement analysis.

(a great pdf article on the [cash flow statement](#))

This is How Buffett Interprets Financial Statements

By now, you have a good idea about analyzing financial statements. It is now time to put everything together and understand how to interpret the financial statements for investing purposes.

A lot of the books and information you may have already read, relates to the accounting side. The real important part now is to learn how to apply it to investments. That's what the term financial statement analysis really means.

Once you have mastered the concepts from this last post, start applying it to stocks. Get the income statement for a couple of companies and perform the checks and lessons you learned across each one. Compare the companies as you go. This will help you cement your learning.

Then do the same thing for the balance sheet and finally the cash flow statement. You will be a financial statement analyst in no time.

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