

# BUSINESS ANALYSIS & VALUATION

5e

USING FINANCIAL STATEMENTS  
Text & Cases



## Chapter 1: Framework for Business Analysis Using Financial Statements

# Key Concepts in Chapter 1

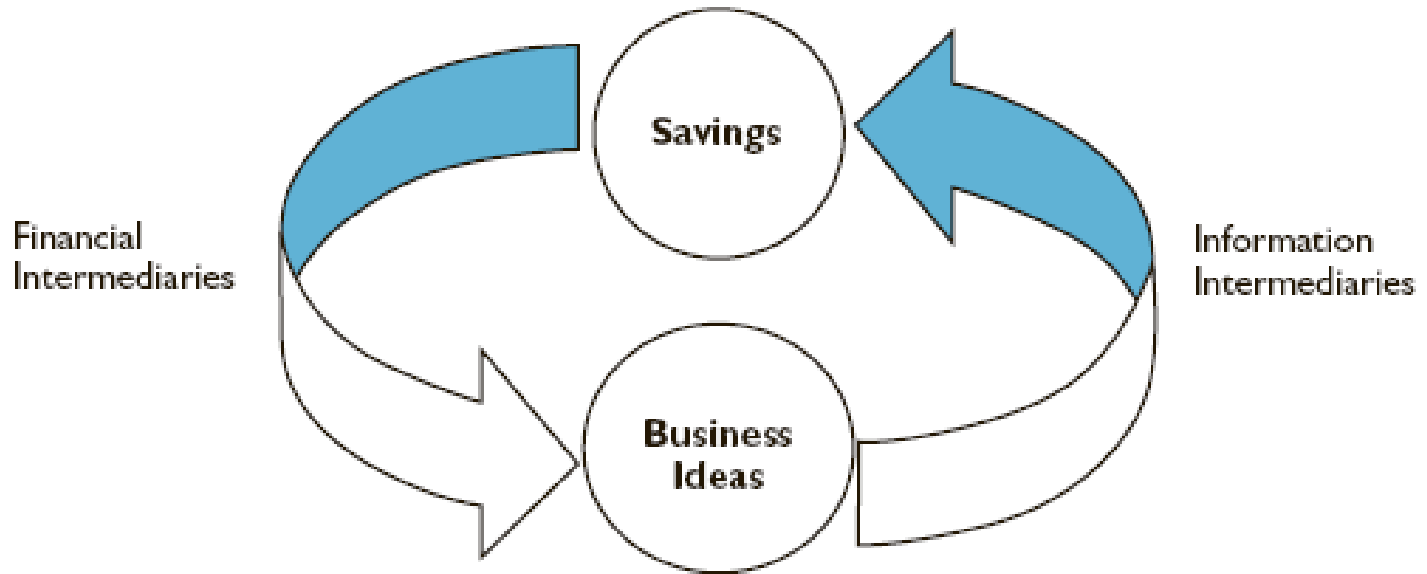
- Financial statements are an important source of information to the capital markets and business analysts.
- Analyzing financial statements addresses a number of issues of interest to external stakeholders and company insiders.

# The Role of Financial Reporting in Capital Markets

- Financial reporting provide much needed information to capital market participants
  - Financial intermediaries depend upon the information in financial statements to evaluate investment opportunities.
  - Information intermediaries assure the quality of financial statement representations.
  - Relevant and reliable financial information is essential for the functioning of capital markets.

# How Capital Markets Function

**FIGURE 1-1** Capital Markets



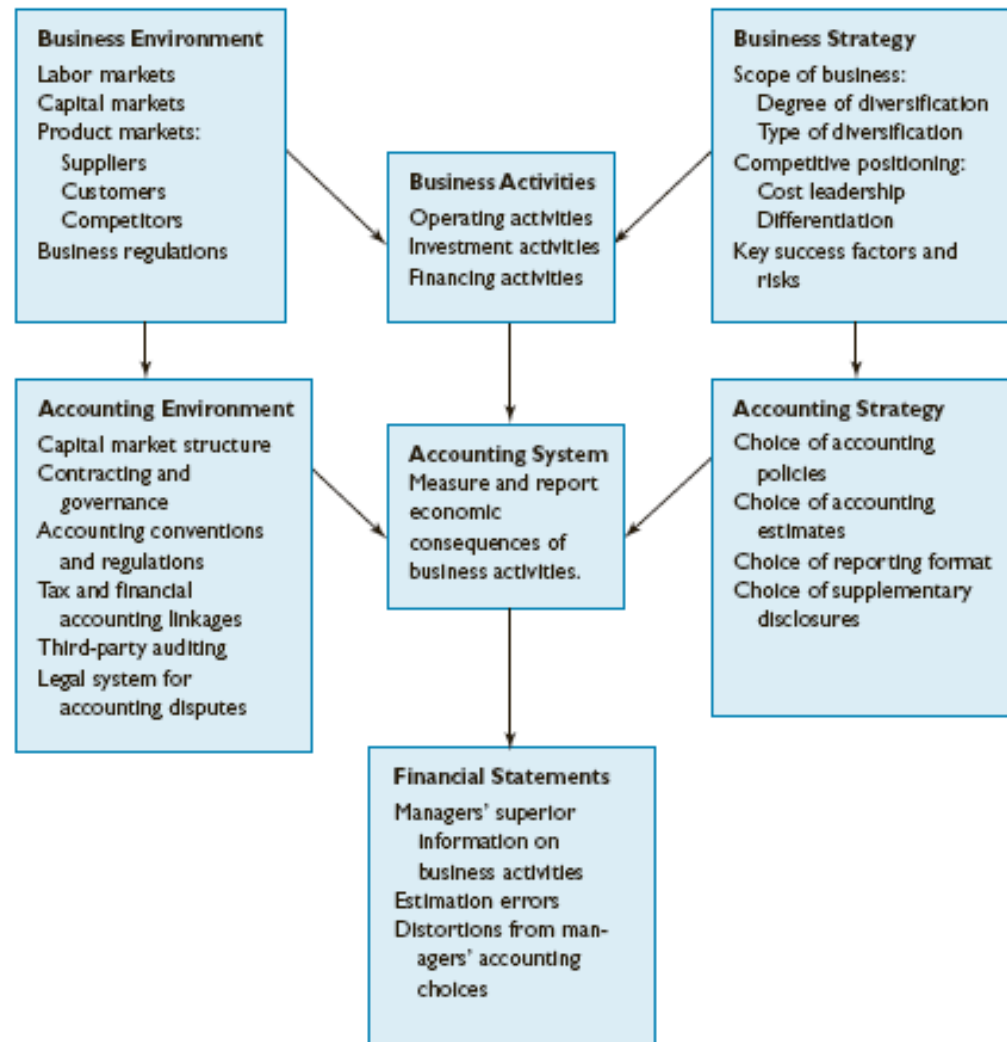
# From Business Activities to Financial Statements

- Financial statements measure and summarize the economic consequences of business activities.
- Accounting systems facilitate information quality.
  - The role of accrual basis accounting.
  - The need for generally accepted accounting principles (GAAP).
  - Auditing and the quality of financial information.

# From Business Activities to Financial Statements

**FIGURE I-2**

**From Business Activities to Financial Statements**



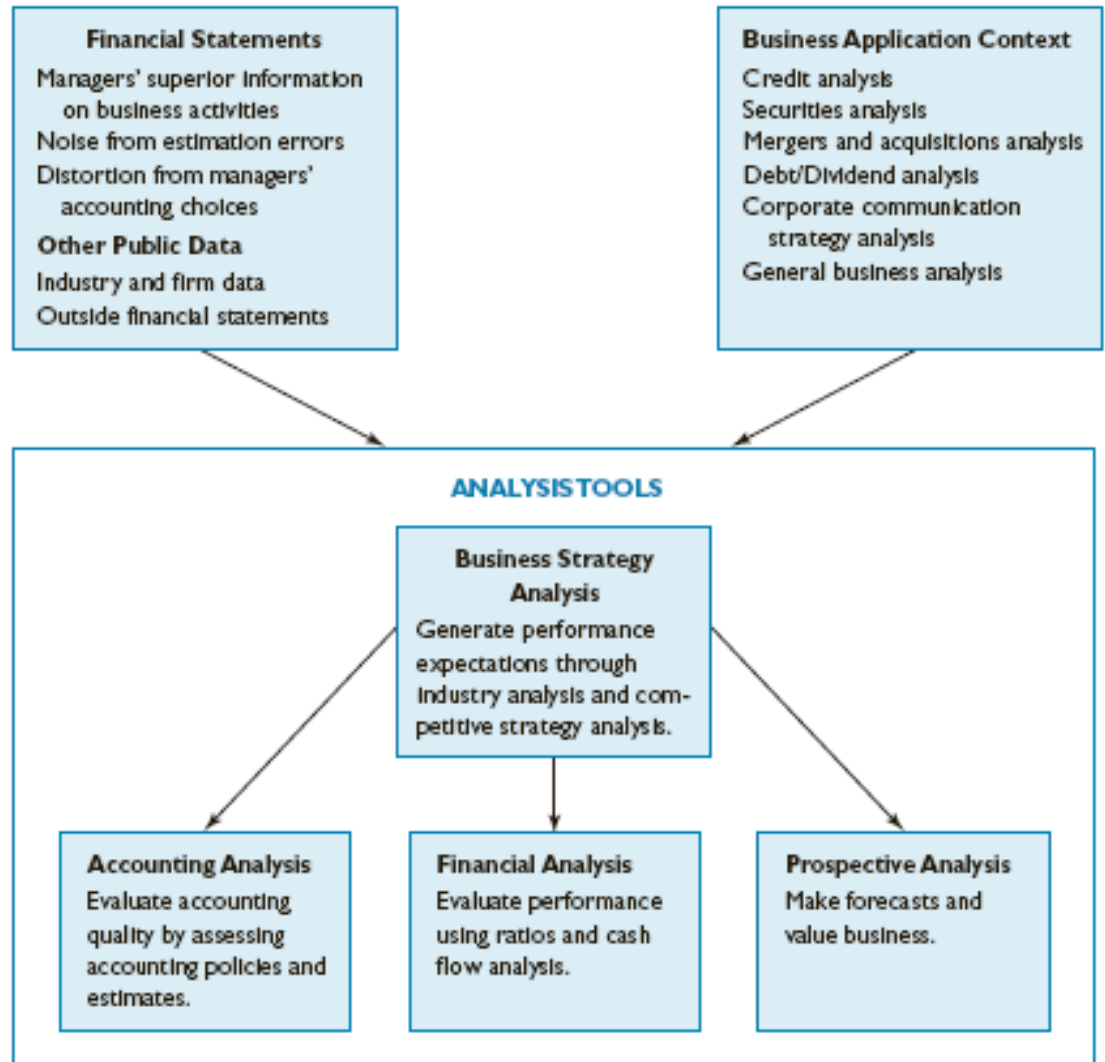
# Financial Statements and Business Analysis

- Business intermediaries use financial statements to accomplish four key objectives:
  - Business strategy analysis
  - Accounting analysis
  - Financial analysis
  - Prospective analysis

**FIGURE I-3**

**Analysis Using Financial Statements**

# Business Strategy Analysis





# Concluding Comments

- Financial statements are source of widely available data on publicly traded corporations.
- Accrual basis accounting attempts to accurately reflect expectations of economic performance, but requires careful analysis.
- This chapter has outlined a useful framework for business analysis using financial statements.