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# FINANCIAL MANAGEMENT AND ACCOUNTING

## Financial Statement Analysis

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H E L L E N I C   O P E N   U N I V E R S I T Y

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**FINANCIAL STATEMENT ANALYSIS**

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## PREFACE

The volume of Financial Statements aims to help you become familiar with the principals of financial statements analysis and their use for making economic decisions. This volume focuses on selected issues dealing with the analysis of the major *Financial Ratios* and explaining concepts and methods such as *Working Capital*, *Cash Flow* and *Breakeven Analysis*.

More precisely, the book is organised as follows:

- Chapter 1, presents the role and the general perspective of financial analysis.
- Chapter 2, analyses the various tools and techniques of financial accounting such as *Vertical Analysis*, *Common Size Analysis* and indicates the importance of *Ratio Analysis*.
- Chapter 3, presents the most important *Activity Ratios*.
- Chapter 4, analyses the *Liquidity Ratios*, and their importance for evaluating the short-term financial situation of the firm.
- Chapter 5, refers to the importance of *Profitability Ratios* and describes how these ratios are calculated.
- Chapter 6, deals with *Financial Structure and Viability Ratios* as well as the factors that influence the decisions of the management..
- Chapter 7, concentrates on *Investment Ratios* and their importance to firms and investors.
- Chapter 8, presents the *Operating Expense Ratios*.
- Chapter 9, indicates the importance of *Comparative Analysis* of accounting statements. It also refers to some important drawbacks of the Balance Sheet and the Income Statement and shows how these disadvantages can be surpassed.
- Chapter 10, refers to the main factors that determine firm's needs of *Working Capital*.
- Chapter 11 presents the concept of *Cash Flow* statements.
- Chapter 12 determines and analyses the *Breakeven Point* of a firm. It also presents the advantages of breakeven analysis for the financial analyst.
- Finally, there is a presentation of a special *Case Study*, in which you will use the tools presented in the aforementioned chapters.

Generally speaking, the material of this volume constitutes the basic tool for an analyst who intends to specify the most important characteristics of a firm. As a result, the aforementioned methods are used extensively by internal and external analysts, such as internal controllers, financial analysts and credit underwriters. At the end, when you have finished your reading, you will be in position to understand the principal financial characteristics of the firm as well as to evaluate its performance.

*Nikolaos Eriotis*