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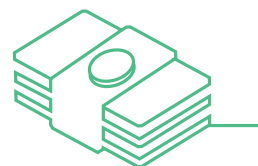
INVEST IN LEBANON

# UNDERSTAND **YOUR** **FINANCIALS**

**FINANCIAL STATEMENT**  
ANALYSIS TYPES

**BSU** BUSINESS  
SUPPORT  
UNIT

# FINANCIAL STATEMENT ANALYSIS TYPES

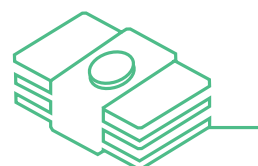


The significance of financial statements lies not in their preparation but in their analysis and interpretation. The analysis and interpretation of financial statement is the comprehensive and intelligent presentation of information that helps the interested parties for judgment and decision-making.

There are different types of financial analysis:

1. External vs. Internal
2. Horizontal vs. Vertical
3. Long Term vs. Short Term





## 1. EXTERNAL VS. INTERNAL

According to material use: Financial analysis is of two types – external analysis and internal analysis.

**External Analysis:** If analysis of financial statement is made by external persons who non related to the accounting records of the concern and have to depend on published financial statement is external analysis. Outsiders use only the figures of financial statement and other supplementary of the annual reports to get an idea and to take appropriate decision. As it is used by the external people so it is called external analysis. Generally it is made by bank, money lenders, creditors, govt. agencies, prospective investors etc.

**Internal Analysis:** If the analysis of financial statement is made by internal person who are related to the accounting records of the concerns from internal records and books is known as internal analysis. It is made by members of the concern such as, staff of finance and accounting department, executives etc. to help the management in assessing the profitability, solvency, liquidity etc. and to indicate the reasons of weakness of the firm. This is conducted by the people inside the firm and for the benefits of the organization so it called internal analysis.

## 2. HORIZONTAL VS. VERTICAL:

According to Modus Operandi of analysis (or Method of Operation): Financial analysis may be of two types: Horizontal and vertical

**Horizontal Analysis (known as time series analysis):** When financial statement of one year of a particular organization are analyzed and interpreted with comparing another year or years, it is called horizontal analysis. The earliest period is usually used as the base period and the items on the financial statements for all later periods are compared with items on the statements of the base period.

**Vertical Analysis (Known as common-size analysis):** When financial statement of an organization for one period is analyzed then it is called vertical analysis. To conduct a vertical analysis each line item on a financial statement is listed as a percentage of another item. Typically, this means that every line item on an income statement is stated as a percentage of gross sales, while every line item on a balance sheet is stated as a percentage of total assets. This analysis is useful in inter firm comparison.

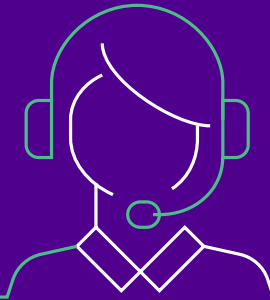
## 3. LONG TERM VS. SHORT TERM:

According to objectives: Financial statement analysis may be long term and short-term analysis.

**Long Term Analysis:** is made to study long term financial stability, solvency, and profitability of a concern. This analysis helps to know whether the firm will survive in long run and helps in long term financial planning.

**Short Term Analysis:** is made to study current financial stability, solvency, and profitability of a concern. This analysis helps to know whether the firm will have sufficient fund to meet its short term requirement that is helps in working capital analysis.

# CONTACT US



THROUGH  
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