Financial statements

FINANCIAL MENTS Analysis of Financial ments and key components of Capital Project …………………………… …………………….. Analysis of Financial Statements

The fundamental goal of accounting information is to provide organizational and economic decision makers with useful information, because, financial statements are designed to assist the users in identifying key relationships and trends (William, Haka and Bettner, 2004, p. p. 602). This paper presents an analysis of various items found in the financial statements and it discusses key components of the capital project.

The three key financial statements are Income Statement, Balance Sheet, and Statement of Cash flow. The Income Statement is an Accounting report that measures the success of the company operations for a particular period of time and this is used by business and investment people to determine the profitability, investment value and creditworthiness etc (Keiso and Weygandt, 2007, p. 126). Income Statement summarizes revenues, gains, expenses and losses. Sales, fees, dividends and interest are parts of revenues, while expenses take forms of cost of goods sold, depreciation, interest, wages and salary etc. Gains and losses are different types like sale of plant assets or investments, settlement of liabilities etc. Expenses are debited and revenue are credited, and the total of these can be a net debit (loss) or net credit (profit). Income statement evaluates the past performance of the company and provides a basis for future prediction and assessing risk or uncertainty.

The Balance Sheet presents the financial position of the business through the main elements that are called assets, liabilities and stockholders' equity (Davies and Pain, 2002, p. 49). Assets include those that can provide future economic benefits as a result of past transaction (plant, machinery, vehicles and all) and liabilities include those that are probable future sacrifices of economic benefits arising from present obligations- loan, overdraft etc- (Keiso and Weygandt, 2007, p. 173). Assets are regarded to be debit balances and liabilities and stockholder's equity are credit balances. Balance sheet is always in a balance and hence it can be summarized as:

Total assets = equity + total liabilities. Balance sheet is helpful to assess the liquidity, solvency and financial flexibility of a business.

Neither balance sheet nor income statement show or directly analyze some of the key changes taken place in the financial position. They don't show cash inflows and cash outflows that are in turn, highly important to know and assess the timing and uncertainty of cash flows. Cash-flow statement, instead, provides cash inflows and outflows and it calculates the net changes in the cash position of the business. It comprises of 1) operation activities which are cash effects of transactions, 2) Investing activities that include making and acquiring loans etc and 3) financing activities that involve liability and owners' equity items.

Key components of Capital Project

Weaver and Weston (2002) illustrated that while serving important economic and financial functions, there should be effective communication, established business direction, prioritizing opportunities and establishing business performance (p. 216). Deciding on capital projects is a challenging task because it is long term investment projects that requires large amount of money for its acquisition. Weaver and Weston (2002) identified product development and research, marketing, sales, engineering, production, logistics and finance as the key factors that are to be considered while deciding on capital project (p. 216).

While deciding on a project company should look at the costs, relative benefits of the investment in the proposed project, opportunities, efficiency and its usefulness in the business.

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