

Discussion 1: formal  
financial statement  
and discussion 2:  
standaard classifica...



Formal Financial statements The financial statements are the most important financial reports that are prepared for users of financial information. The four basic accounting statements are the income statement, the balance sheet, the statement of retained earnings and the statement of cash flow. The balance sheet is considered a statement of position because the information reflected in the statement is the actual account balances at that specific point in time. The main components of the balance sheet are assets, liabilities, and equity. The balance sheet follows the logic of the basic accounting equation. The basic accounting equation states that  $\text{assets} = \text{liabilities} + \text{stockholder's equity}$  (Moneyinstructor, 2011). The income statement provides information regarding an accounting period. The basic accounting period is one year. The income statement reflects the profitability of the company. Its two basic components are revenues and expenses. The statement of cash flow is composed of three sections: investment activities, operating activities, and financing activities. Standard Classification The balance sheet is a very important financial statement because it provides information regarding the financial position of a company at a specific point in time. The classified balance sheet is prepared in order to provide greater usefulness to the arrangement of the accounts. The accounts that are included in the classified balance sheet are 1) current, 2) long-term investments, 3) property, plant and equipment, 4) intangible assets, 5) other assets. The liabilities segment is typically classified as 1) current, or 2) long-term or noncurrent. This classification system is very useful since it arranges information in a manner that the users of financial information can retrieve data to analyze the firm. For example ratio analysis utilizes the data from the classified balance sheet to calculate different ratio metrics such as the debt

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ratio and the current ratio. I do not think that the classified balance sheet requires any additional accounts to be included. References Moneyinstructor.com (2005). Introduction to Transaction Analysis: The Basic Accounting Equation. Retrieved April 14, 2011 from <http://www.moneyinstructor.com/lesson/accountingtransaction.asp>