

# Response to dq1 and dq2 different financial information users and isolation



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DQ1 The lenders of corporations rely on the financial information released by public and private corporations in order to make decisions whether or not to give credit to business entities. For example a corporation may use the balance sheet of a firm to perform ratio analysis in order to determine the liquidity position of the firm (Weygandt & Kieso & Kimmel, 2002). If a company fails to meet the required performance standards of the bank the bank will deny credit. For instance if the current ratio of a company is below 1.0 banks typically deny credit. In your response you mention that investors make buy or sell decisions based on the financial statements released by public entities. Along with the annual report which includes the financial statements for a fiscal year public companies also release trimester financial statements to keep the public informed about the financial performance of the company. DQ2 You mentioned that employees want to know about the financial performance of a firm because they want to know how stable their company is whenever it comes to job security and benefits. Another reason that employees need to be informed regarding the financial performance of a firm is because many employees receive stock options and bonuses that are tied to the financial performance of the firm. The most important output of the income statement is that last line of the report which states the net income or net loss achieved during an accounting period. The goal of all public corporations is to maximize shareholder's wealth (Besley & Brigham, 2000). Investors must analyze the financial statements using multiple techniques including ratio analysis, horizontal analysis, variance analysis, and vertical analysis. The CEO of public corporations since the creation of the Sarbanes Oxley Act must sign the financial statements and are personally liable in case of fraud. References Besley, S., Brigham, E. (2000). Essential of <https://assignbuster.com/response-to-dq1-and-dq2-different-financial-information-users-and-isolation/>

Managerial Finance (12th ed.). Fort Worth: The Dryden Press. Weygandt, J., Kieso, D., Kimmel, P. (2002). Accounting Principles (6th ed.). New York: John Wiley & Sons.