

# Footnotes in financial statements

Finance



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Foot s in Financial ments Foot s in Financial ments Foot s in financial ments are a very important part as it can reveal information that cannot be placed inside the report. It contains additional information and details about the report that cannot be mentioned in the main documents such as income statement or the balance sheet. The additional information if included in the main report would cloud the data in it and hence decrease the efficiency of the report. But the same additional information in the form of footnotes can lead to better clarity and understanding of the financial statement (Robinson et al., 2012).

The last section of the financial statements consists of the footnotes and consists of information such as the policies and methodologies used in the preparation of the financial statement. In the simplest sense, the information in the footnotes is an extension of financial statement. It contains quality information that might be useful in understanding the financial position of the company.

The footnotes can be divided into two section based on the content in it. One is about the accounting methodologies that are used in the preparation of the report. Second is the detailed explanation of the financial and operational reports.

The information about the accounting policies of a company is identified and elaborately explained in the first section. There are numerous parts to this section that addresses different aspects such as inventory, revenue, etc. The policies with respect to these different aspects are discussed in this section. The determination of value of these different aspects is also discussed in this section(Tracy, 2009).

There are numerous aspects of a business that cannot be easily understood

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such as when a company books a sale or revenue determination process. The understanding of these processes is very important to understand the information provided in the report. The information about these processes, mainly the revenue section, is provided in the footnotes. The revenue recognition and revenue determination process is addressed in the footnotes of a financial report. Hence the understanding of such methodologies and policies is only possible with the help of the information in the footnotes. The information in the footnotes is very valuable from an investor's perspective as it can provide valuable information about the financial structure of the company. Facts that cannot be easily grasped from the main report can be understood by analyzing the accounting methods used. The analysis and comparison of the accounting methodologies with other companies can reveal a great deal about the company. It can throw light on whether the financial records of a company are manipulated or if the business is competent to be successful in the respective industry.

' Disclosure and financial details' is another section in the footnotes that is also very helpful for the company to maintain a clean report. In this section, numerous other calculations are incorporated which are again very helpful for investors. The various topics on which the information is disclosed in the section are stock options, details on employee stock ownership, long-term debts, etc (Peterson & Fabozzi, 2012). The footnotes also consist of information on the risk factors and liabilities of a company.

It is clear from the above that footnotes are very important aspect of a financial statement. It helps one to understand the thought process that has gone into the preparing the financial statements as well as the financial health of the company. It is very important from an investor's perspective for <https://assignbuster.com/footnotes-in-financial-statements/>

a better understanding of the financial statement.

## References

Peterson, P. P. & Fabozzi, F. J. (2012). *Analysis of Financial Statements*. NJ: John Wiley & Sons.

Robinson, T. R., Henry, E., Greuning, H. V, Broihahn, M. A. & Pirie, W. L. (2012). *International Financial Statement Analysis*. NJ: John Wiley & Sons.

Tracy, J. A. (2009). *How to Read a Financial Report: Wringing Vital Signs Out of the Numbers*. NJ: John Wiley & Sons.