

Application of financial statement

Finance



Application of Financial Statement How the Use of Income Statement May Be Applied to Your Everyday Life An income statement or a profit and loss statement gives a summary of the company's profit and loss over a given period, either a month or a year. It records the business revenues and the operating expenses of a business for a given duration. It is among the most basic records needed by bankers, investors and vendors before making crucial decisions, and can also be applied in real life. All people use accounting statements in their daily life. According to Smith (2009), every time people balance their checkbooks to their bank statement, an aspect of accounting is applied. Similarly, every time people balance what they have spent and gained in family's needs or business, they apply the fundamentals of the income statement. In addition, when individuals consider what they have given as a credit to others and what they have received as credit, that is also an income statement. The basic application of income statement is simply the difference between revenue and expenses. In our personal lives, as we determine our gains and losses, there is no difference with using the income statement. Individuals need to track their income compared to their expenses in order to avoid overspending. In daily life, people need to know the much they earn compared to what they spend to ensure that we meet their daily needs. Home income statements can sometimes be used by creditors and banks to determine people's credibility to handle more credit. An individual income statement is also important as it shows how solvent we are, as stated by Dopson and Hayes (2008). For instance, if one has more assets compared to debts, then that person is solvent meaning he/she has enough assets to cover for debts. How a Business Manager May Benefit from Understanding the Income Statement Business managers can use an income

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statement to make decisions based on periodic income performance. It enables them to compare previous performance to the present performance, information which can be used for various reasons, For instance, a manger might need to add employees at a certain period, and hence the income statement which can indicate the peak period can enable the manager to know the right time to do so. Through the income statement, the manger is able to know when expenses on items are high and thus change their suppliers. It can also be used when establishing the right period to make high dollar purchase. Through the income statement, the manager can also establish the effectiveness of the management. In addition, it helps the manager to track trends of underperformance and also identify the strong periods where growth trends fulfill the business goals. The income statement is used to determine the essential adjustments including lowering of expenses and increasing of costs, according to Henman (2006). Business managers can also use the income statement to determine the right time to expand their business. Most importantly, the mangers can use the income statement to measure business strategies for success. In such a way the manager is able to reorganize business strategies and come up with better strategies. Nevertheless, through the income statement the manger can establish whether the business is worth his/ her investment, hence make a decision on whether to continue or to close. How My Understanding of the Income Statement May be Applied in My Future Position Understanding of the income statement can be applied to my future situation in different ways. For instance, by this understanding will be able to establish the amount of money I spend on daily basis and this will help me to budget for monthly expenses hence avoid overspending. Additionally, understanding <https://assignbuster.com/application-of-financial-statement/>

this will enable me to know the kind of investments I can undertake with the amount of profit a currently make. By understanding the income statement I will be always aware of the people I owe and those who owe me in order to avoid misunderstandings and protect my business from risks. In addition, such an understanding will enable me know when my business in doing well or when it is making loss, hence make the right decisions. The income statement will also be applied to determine my daily expenses in order to establish when much is spend and less is spend, thus be able to balance my expenses, as stated by Pratt (2010). This will in return help in making priorities hence choice and the opportunity cost. In such way I will be able to avoid loses and maximize on the profits. An income statement is a crucial element in every individual's life. It helps us budget for our lives more easily as well as meet our goals both in family matters and business matters. Therefore understanding it and applying it in our lives helps us to make the right choices in as far as our earning and spending are concerned.

References: Dopson, L. R. & Hayes, D. K. (2008). *Managerial Accounting for the Hospitality Industry*. New Jersey: John Wiley & Sons. Henman, I. (2006). *How to understand financial statements*. Retrieved from <http://www.reallifedebt.com/how-to-understand-financial-statements-6710.html> Pratt, J. (2010). *Financial Accounting in an Economic Context*. New Jersey: John Wiley & Sons. Smith, T. (2009). *Understanding the income statement*. Retrieved from <http://www.helium.com/items/1341275-income-statement-and-cash-flow>