Acc 291-week 4 dq 1 essay

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Companies are required to prepare a statement of cash flows because it contains necessary information for external users, such as lenders, investors, creditors and other to better assess the company's flow of cash. It is a basis for cash flow analysis. It shows if the company has the ability to generate future cash flows, the ability to pay dividends and meet obligations, it shows the differences between net income and net cash used by operating activities, and how cash is invested and financing transactions during the period. Companies generate cash three different ways, therefore the statement of cash flow is divided into three sections: operating activities, investing activities, and financing activities. The operating and financing activities section shows how the company gets money, and the investing activities section shows how the company spends cash.

The three most commonly used tools to evaluate the significance of a financial statement are; horizontal analysis, vertical analysis, and ratio analysis. The horizontal analysis is also called trend analysis. This technique evaluates a series of financial statement data over a period of time, which determines the increase or decrease that has taken place. Base year: Change Since = Current year Amount – Base Year AmountBase Period Base Year AmountCurrent YearCurrent Results in = Current Year AmountRelation to Base Period Base Year AmountThe Vertical analysis is also called common-size analysis. Its technique shows each financial statement item as a percentage of the base amount. Balance sheet percentage: Each item on B/S = %Total AssetsIncome statement percentage: Each item I/S = %Net SalesThe ratio analysis is a technique that expresses the mathematical relationship between one quantity and another.

The relationship can be expressed as a rate, a percentage, and a portion.