Financial statements, ratios, the loan package

Business

Financial ments, Ratios & Loan Package Financial ments Technically, financial ments are structured presentation of a company's financial information. Examples of financial statements include balance sheets, income statements, and tax return reports among others. Income statements are primarily useful in determining the profitability and future commercial viability of a company (Roger & Whalen, 2010). Bankers use income statements, especially the element of net profit, in deducing a company's financial position prior to extending loans and making other credit commitments. On the other hand, income tax returns are useful in determining the tax liability and tax compliance levels of an organization. Tax returns are also used to determine the income trends of an organization.

Financial Ratios

In the context of financial reporting, financial ratios are relationship between distinct items of a financial statement. One commonly used financial ratio is current ratio. Current ratio is the relationship between current assents and current liabilities in a company's balance sheet (Davies & Lesley, 2014). Current ratio indicates a company's liquidity levels; a positive ratio means that a company can pay its liabilities with ease while a negative current ratio is a sign of inflexibility in payment of liabilities. Another common type of financial ratio is debt-to-equity ratio. Debt-to-equity ratio indicates the relationship between a company's total assets versus total liabilities. This is a solvency ratio which determines a company's ability to pay its debt to shareholders. A positive debt-to-equity ratio indicates high solvency while a negative ratio signifies insolvency (Alvarez, 2011).

Loan Package

Primarily, a loan package is a financial proposal required by lenders during the application and processing of real estate and property loans. Essentially, information contained within a loan package should reflect the financial prospects of the borrower (McDonald, 2010). Therefore, it becomes necessary to include a business plan in ascertaining the financial feasibility of the real estate or property to be funded by the lender. Among the SBA requirements of a loan packages include provision of personal guarantees, especially succinct presentation of expected cash flows and how the borrower plans to repay the loan. One covenant of loan packages is restriction of the borrower from utilizing the loan in any projects other that the development or purchase of real estate and other properties (Smith, 2013). Another covenant in loan packages is strict adherence to repayment schedules.

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