

# [Describe key financial statements, including balance sheets and cash flow stateme...](https://assignbuster.com/describe-key-financial-statements-including-balance-sheets-and-cash-flow-statements/)

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Key Financial ments       Key Financial ments  Balance Sheet A balance sheet gives information on the business’ ability to pay bills on time; its capacity to give dividends to the owners, and its financial flexibility to acquire money. A balance sheet displays the shareholder’s equity, liabilities, and assets of the business. In addition, data on a balance sheet can be employed to calculate vital signs that highlight the structure of a business and its capacity to meet its responsibilities (Longenecker, Petty, Palich, & Hoy, 2012). These may comprise quick ratio, working capital, or current ratio.
Income Statement
An income statement gives information on business profitability and earnings. The income statement is usually valid for a period that is specific. This may be a month or a year. Nonetheless, income statements are indispensable. This is because they permit the owners of a business to evaluate the business results over a period and to know the outcomes of other businesses for a similar period (Longenecker, Petty, Palich & Hoy, 2012).
Cash Flow Statement
A cash flow statement illustrates the flow of money out and in a business. The cash flow statement depicts both the accompanying alterations and the current results of operation in the balance sheet. A cash flow statement is helpful in ascertaining the viability of a business that is short-term, most importantly, its capacity to pay costs. Moreover, a cash flow statement highlights the true cash flow paid and received by the business. A cash flow statement highlights the flows of cash from operations, that is, the staff and suppliers’ payments, and money received from clients (Longenecker, Petty, Palich & Hoy, 2012). Also, it shows cash flows from investing activities and financing activities.
Question 1
Cash and cash equivalents
Cash equivalents are assets that can be willingly converted to money, for example, commercial papers, treasury bills, money market, or marketable securities. Moreover, cash equivalents have an existence that is short-term. Cash equivalents mature within a period of 3 months. A cash equivalent investment should have a change in value that has insignificant risk (Graham, Zweig, & Buffett, 2003).
Accounts receivable
Accounts receivable is cash owed to a business by customers and the balance sheet depicts it as an asset. It deals with the billing of a client for services and goods ordered by the client. In addition, accounts receivable epitomizes cash owed by persons to the business on services or products sales on credit (Graham, Zweig, & Buffett, 2003).
Inventory
An inventory is a list of materials and goods that are stocked by the business. Inventories are mainly materials and goods for sale by the business. Nonetheless, a business may store inventories that it does not intend to sale to clients (Graham, Zweig, & Buffett, 2003).
Question 2
Current Liabilities
They are short-time financial requirements that are paid in a year. Current liabilities may comprise expenses like interest payments that are not paid, taxes, and wages, advance collected revenues for services or goods delivered, cash dividends, accounts payable, and short-term notes.
Long-term Liabilities
They are liabilities that are not paid in an operating cycle of a business or within a year. These liabilities entail large amounts of money that may be used to buy assets that are significant, replace assets, or expand the business.
Contingent Liabilities
They occur when a business suffers a probable liability for a transaction or an event, but it is not sure if it will result to its financial drain. Contingent liabilities often occur when the business is facing legal issues.
Question 3
Current ratio measures business payables and debt, and its receivables, inventory, and cash. It is a measure of a business capacity to accomplish its short-term requirements. Current ratio is calculated through a division of total current assets with total current liabilities (Arthur & Sheffrin, 2003).
References
Arthur, S., & Sheffrin, S. M. (2003). Economics: Principles in action. New Jersey: Pearson Prentice Hall.
Graham, B., Zweig, J., & Buffett, W. E. (2003). The intelligent investor: The definitive book on value investing. New York: Collins Business.
Longenecker, J. G., Petty, J. W., Palich, L. E., & Hoy, F. (2012). Small business management: Launching and growing entrepreneurial ventures (16th ed.). Ohio: South-Western Cengage Learning.