

# Example of david mandela the chief finance officer report

[Business](#), [Company](#)



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Different companies have the obligation of keeping well organized books of account that present the fair and true view of the financial status of the company. Additionally, as a condition, they must disclose the details of their operating accounts during the stakeholders' Annual General Meeting. They are as well required to attach the copies of such accounts to their annual returns. Similarly, they must observe certain rules while presenting their reports. This paper gives a report on the interview the author of this paper had with the Chief Finance Officer of Africa Development Bank. In particular, the interviewer restricted himself to the identification of the accounts they are required to keep, the financial information which is very important to them in relation to the performance of their business, how they cost their work and the authorities and individuals they provide details of their

performance to. The information gathered is presented in the form of questions and answers.

### **Question 1**

Hello, could you please tell me your names and your designation in the company?

Answer.

### **Question 2**

The different Companies Acts of 1963 to 2012 spell out that the directors of companies must lay various reports and accounts at the annual general meeting before the members of the company. As the company's chief finance officer, what accounts are you required to keep in order to comply with the Companies Acts of 1963 to 2012?

The interviewee revealed that to comply with the Companies Acts of 1963 to 2012, his company prepare the following accounts that are being put before the members of the company every annual general meeting.

- a. Trading and Profit and loss account
- b. Balance sheet

### **Question 3**

Is there a format that must be followed while preparing the mentioned accounts?

The interviewee stated that the balance sheet and the trading and profit and loss account need to be prepared in a fixed format and must follow the rules that Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) lay.

## Question 4

What is a trading and profit and loss account and why must the company prepare the account at the end of the trading period?

The trading profit and loss account reveals the company's gross profit and net profit. It is one of the company's financial statements in that it shows the company's net results during a given fiscal period. It gives a summary of the company's revenue or incomes as well as its expenses. The net difference between the company's revenue and expenses shows its loss or profit for the period. In particular, the account is significant in that it acts as an indicator of the company's financial health.

It was established from the interview that the trading and profit and loss account is prepared at the end of the accounting period simply to calculate the net profit. Specifically, it was recognized that its preparation helps gain the knowledge of net loss or net profit of the company. As well, the preparation of the account facilitates carrying out of comparison the company's previous year's loss or profit. The value of the profit ascertained by the trading, profit and loss account for a given accounting period can be used as a yardstick for comparing the profit of the previous accounting period. It was established that this helps ascertain the goodwill and efficiency of the company. Thirdly, it was found out that the account is equally prepared simply to control the company's expenses. In particular, it was established that its preparation facilitates the analysis of various expenses and their comparison with those of the previous accounting period helps in taking the concrete steps geared towards effective control of the company's expenses.

## Question 5

Mr. David, you mentioned that the company's trading profit and loss account measures the income generated by the company. How do you recognize and measure expenses and revenue for you to establish the applicable amount of revenue and expenses? In other words, are there concepts you use while preparing the account?

As per the income measurement concepts, the interviewee revealed four important concepts of measuring a company's income. These are; the realization concept, accrual concept, the matching concept, and the accounting period. It was established from the interview that the realization concept is concerned with determination of the time of recognition of the interview. Basically, the company uses this concept and thus considers revenue as only earned when a service is rendered or goods are delivered to the customer. However, it points exemptions to higher purchase transactions. It was as well realized that the company uses accrual concept to evaluate every transaction while making reference to the impact it has on the equity of the owners.

The interviewee however revealed that the matching concept is applied while preparing the company's profit and loss account. It was established that the concept demands that all the expenses of the fiscal period should be matched against the revenues which are related of the appropriate accounting period. The interviewee revealed that the concept ensures that the costs of goods sold and sales in the statement refer to a similar product. Lastly, it was realized that due to the fact that trading and profit and loss account is a flow report, to establish the company's financial position and

operations, the time has to be divided into different segments typically called the accounting period. This helps in assessing the company's financial health at the end of every accounting period to facilitate the comparison.

### **Question 6**

What do you mean by a balance sheet and why must it be prepared by the company?

It was found that a balance sheet is a document that a company prepares at the end of the trading period to ascertain its financial position. In particular, the interview revealed that besides showing the financial position of the company, to comply with the Companies Acts of 1963-2012, it must be prepared simply to present concrete details of the company's assets, owner's equity and liabilities as at a particular day.

### **Question 7**

Is there any relationship between a balance sheet and a profit and loss account?

It was established that the major relationship between the two is that they both reflect the company's financial health. However, the balance sheet shows a company's financial health in relation to its assets, owner's equity and liability at a particular day. Conversely, the profit and loss account shows the company's earning capacity. It summarizes the operations results for a defined accounting period.

## Question 8

What financial information is important to you in relation to the performance of the company?

## Question 9

What aspects of business performance is the financial information helpful?

The revealed that financial information is important in that they help in the analysis of the company's financial health. In particular, it was established that the significant financial information are those which relate to the understanding of a company's profitability, liquidity, and the management's efficiency. The interviewee revealed that the value of current assets and current liabilities are essential for computing the company's current ratio which demonstrates the ability of the company's current assets to balance off current liabilities hence indicating the liquidity position of the company. Similarly, financial information that regards net profit is of significance since it shows the performance of the company in relation to profitability when it is compared to the company's sales volume. Equally, the value of net profits and total assets help in understanding the company in relation to the rate of return on investment. Other values are also essential in determining the company's leverage position. For instance, it was recognized that a comparison of the value of total liabilities and net worth shows the performance of a company with respect to the degree to which it has been funded by non-owner supplied finances. It shows chances that a company will not be able to set off its debts. Too much non-owner supplied funds presents a financial risk to a company.

Generally, it was realized that the financial information is helpful in demining

the performance of the company with respect to profitability, leverage, and liquidity. For the profitability ratios, net profit margin ratio computation is helpful in show the profitability of the company. Profitability ratios show how effectively a company uses different funds to generate profit or returns. Leverage ratio analysis is undertaken to determine the extent to which the company has been funded by the non-owner supplied finances. Activity ratios measure the degree of efficiency that the company is using its various assets to help in revenue generation. This is the reason why the interviewee stated that the financial information on assets is vital in assessing the performance of the company. It besides indicates how actively assets are. Liquidity ratios however are used to determine the capability of a company to meet its maturity demand and whether it is in a position to pay off its operating trade payables, thus the need for information relating to accounts payables.

## **Question 10**

Who does the company provide details of its performance to?

The interviewee stated that essentially, the company accounts are prepared simply to meet the user's needs. The details provided offer information about the company's performance, financial position, as well as the changes in its financial health. The typical users of such information recognized were the shareholders, employees, suppliers, the public, customers, the government as well as its agencies, the lenders as well as the financial advisors and analysts.

Company customers similarly were established as the users of such



information. The interviewee elaborated that customers rely on the company's services and goods. They use such information to determine whether there is possibility of relying on the company for their future supplies or not. Similarly, lenders provide financial assistance to the company and thus require the information to assess the capability of the company to pay interest on loans as well as whether it has resources to fully pay back the principal when it is due in case the loan is awarded.

The information is also vital to the government and its agencies in that the information is used to determine the tax that should be collected from the company. Governmental agencies require such data since the data is ideal for the formulation of national statistics. The statistics in turn are used in measuring the economy's performance. It was established as well that the public are interested in such information since the information is critical for evaluating the social responsibility of the company.

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