

Business

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Financial statements Affiliation: a) From the three basic financial statements introduced in Theme 2, which statement is most likely to reveal issues the new coffee shop could have with seasonal fluctuations? In other words, does the coffee shop's ability to generate cash change during certain seasons? What could the owners do to even this out?

The statement of cash flows will easily detect any fluctuations in the coffee shop. This is because it shows cyclic trends of the cash in and cash out of the coffee shop and if there are deficits in some seasons, then it will definitely detect that. During peak seasons, the statement will indicate more cash in than cash out, but the opposite is true during the off-peak season. If seasonal fluctuations are discovered by the owners, they should brainstorm strategies to keep their cash-in and cash-out equal no matter the season. This may include selling different products during the off-peak and peak season or even offering discounts.

b) Which financial statement is more likely to show the impact of buying a building for the shop? Are there other statements that might be impacted by such a purchase? How?

The balance sheet is the best financial statement to indicate impact. This is because the new building bought is an asset and will therefore reflect on the balance sheet. The income statement will also be impacted on because it will indicate the expenses of purchasing that building during that financial year. Whether the building brings in cash or demands more cash out of the coffee shop will be reflected in the statement of cash flows (Fridson and Alvarez, 2011).

c) Which financial statement shows a quick view of the coffee shop's ability to pay back a loan? Are there other factors that are not shown on the

statement that should be considered by someone making such a loan to the owners?

The income statement is the best financial statement that gives a quick view of the coffee shop. This is because it just indicates the annual profits and losses the shop has made since it began. The statement does not indicate the assets the shop has which if financially boosted can increase the profits by far but since they are not in use or are underutilized have become a liability to the shop. If the person granting a loan is able to view their assets, then he or she may be in a better position to make a fair judgment of whether to grant the shop a loan based on its potentialities of expansion or not.

References

Fridson, M. S. and Alvarez, F. (2011). *Financial Statement Analysis: A Practitioners Guide*. New Jersey: John Wiley & Sons.