

# Application of income statement and balance sheet in everyday life

[Finance](#)



Being a student of accounting and finance, I have utilized the knowledge gained in class to open up an electronic shop. Through the use of the income statement, I have been able to determine my business expenses and sales for a given period. Being the manager of the business, I always ensure that my assistant prepares the income statement every month and also at the end of the fiscal year. Through this operation, I have been able to identify if I am incurring losses or making profits. In case losses are recorded; I often identify the loopholes in my business and fix them immediately through environmental scanning. For purposes of bridging the gap between the profits and losses, I always ensure that I am updated with the new models in the market so as to maintain loyalty with my customers and make more profits. The good thing about the income statements is that they contain expense and revenue categories that are specific regardless of the company or business nature (Walther, 2010).

A better understanding of income statements helps a company in fulfilling and managing the business financial picture. This is because the income statement is the direct outcome of the information recorded in the ledgers and journals. Furthermore, the information recorded is then transformed into compiled and concise expense and revenue figures. Income statement helps the managers in getting an accurate picture of the expenses and revenue figures as it is prepared monthly, quarterly, or yearly. As such, they are used by managers and management teams within the company to analyze its operation. Moreover, it is also useful to creditors and investors outside the company for purposes of evaluating the performance and profitability of the company. Additionally, it is used by investors and creditors to assess the

company's risk. Thus income statements help the managers in making the company's policies and choosing operation choices that will enhance the company's performance (Porter & Stevenson, 2011). For an individual to understand how income statements and balance sheets can be useful, one has to understand the underlying differences. The balance sheet provides an observant with a clear picture of the company's financial condition as a whole. As such it gives the detail of the company's intangible and tangible goods that it possesses or owes. The goods can be categorized into liabilities, assets, and stakeholders equity. On the other hand, the income statement helps in measuring the company's expenses and sales for a given period. As such, they are often prepared monthly and yearly. Since I want to pursue my career as a business administrator, having knowledge of the above two financial statements will ensure the smooth running of my business or the company I will get employed to offer my services. Given that accounting data provided by income statements are not concrete or absolute, I will be able to make considerable amounts and estimations that are essential in developing accounting measurements that are specific. These measurements are often reported on a monthly, quarterly, or yearly basis by the income statement. For instance, they help in providing information on a routine basis by providing financial reports periodically. The backbone of any reporting or accounting system is the accounting equation. It is the principal component for the understanding of the central financial statement which is the balance sheet. This is an illustration of how important a balance sheet can be to a company. Given the above balance sheet, an individual may decide to purchase or not to buy stocks from the corporation

as they will have to give considerations to valuation considerations. The information provided in the financial statement helps in portraying the importance of accounting statements in making credit and investment decisions. However, they are not the only source of information in making credit and investment decisions (Berry& Jarvis, 2006). In conclusion, financial statements are essential for companies and entrepreneurs as they help in showing the financial condition of a business in a certain period