

# Example of financial accounting reports essay

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



## **Introduction**

According to the online business dictionary, financial accounting is “ a field of accounting that treats money as a means of measuring economic performance instead of as a factor of production. It encompasses the entire system of monitoring and control of money as it flows in and out of an organization as assets and liabilities, and revenues and expenses.

Financial accounting gathers and summarizes financial data to prepare financial reports such as balance sheet and income statement for the organization's management, investors, lenders, suppliers, tax authorities, and other stakeholders. Financial reporting is the presentation of financial data of a firm's financial position, operating performance, and funds flow for an accounting period (Wood & Sangster 2009).

## **Users of financial statements**

Various users utilize financial statements. They all have varying needs in using these statements. Investors may use financial statements and reports to determine the financial outlook of a company they have already invested in, or are considering to invest. Angel investors, for instance, may seek to understand the business prospects and the projections an entrepreneur or inventor has if and when their idea takes off. They will, based on the data, determine how much, if at all, to invest depending on the feasibility of the idea or invention. Investors, especially in start-ups, usually only deal in hypothetical financial statements and projections.

Managers require accounting information to make the day-to-day decisions

in running a business. The information helps them to keep track of how well the firm is progressing based on the ongoing implementation of their decisions and helps them to review their decisions constantly. Managers use financial accounting information alongside management accounting reports, which are internal, to make decisions. The information available to them is more detailed as compared to that available to most other users which is consolidated.

Shareholders use accounting information to make their investment decisions, especially in the case of listed firms. Depending on the returns on the shares and the firm's growth projections, a shareholder decides either to invest more in the firm or to divest from the firm. Shareholders are most interested in the long-term viability of the firm as compared to other users. They mostly focus on profits earned, dividends declared, earnings per share, among other key earnings ratios. They are considered to be core users because they provide firms with the economic resources to undertake their objectives. Moreover, the financial markets are crucial in the formulation of macroeconomic policies and the maintenance of stable economies.

Lenders, including commercial banks, investment banks, among others are also key users of financial accounting information. They use this information to determine whether firms are credit worthy when they approach them for financing. Lenders often focus on cash flow of the firm to determine whether the firm can meet its financial obligations when they fall due.

Prospective business partners would also be interested in accounting information of a firm. They would use this data to verify the performance of a business to decide whether it is a worthy investment. They are most

interested in the statement of financial position to confirm that the fundamentals underpinning the firm are sound. The information is also useful in determining the value of the percentage they might choose to purchase. Tax authorities within the state where the firm is situated are key stakeholders in financial accounting information. They use the information to calculate the tax liability of the firm. They most important to them would be the statement of comprehensive income. Though there are many other users of financial statements these users listed are the key users.

## **Legal and Regulatory Framework**

Financial accounting and reporting exist within the legal and regulatory framework. In the U. K, reporting standards and requirements are contained in several current legislation including Companies Acts 1985, 1989 and 2006; the Partnership Act 1890 and other European directives (Elliot & Elliot 2008). In the UK, all companies had to comply with provisions of the Companies Act of 1985 whose provisions were, in time, gradually replaced by the provisions of the Companies Act of 2006. Its key provisions hold that:

- `Every UK registered company is required to prepare a statement of financial position and a statement of comprehensive income for each financial year which gives a true and fair view.
- The financial statements must comply with Schedule 4 to CA 2006 about format and additional information provided by way of notes.

There are other guidelines that companies must comply with, which include financial reporting standards and other professional guidelines. In the United Kingdom these are as follows:

- Accounting Standards

Some of the guidelines include Financial Reporting Standards (FRSs) which are issued by the United Kingdom's Accounting Standards Board (ASB). Others are Statements of Standard Accounting Practice (SSAPs) which have been adopted by the ASB. IFRSs and SSAPs will, in most cases, apply to most of individual company financial statements in the United Kingdom (Kaplan financial 2014).

#### - International Financial Reporting Standards (IFRS)

These are guidelines that are issued by the International Accounting Standards Board (IASB). Companies based in the United Kingdom and have shares that are listed on a Stock market e. g. the London Stock Exchange, must prepare annual consolidated accounts that are in line with International Financial Reporting Standards. There are, therefore, differences between IFRS and UK Generally Accepted Accounting Principles (Kaplan financial 2014).

This framework is crucial in the protection of some users and in making sure that other users fulfill their statutory obligations. For instance, shareholders are protected from the bad have discretionary authority. They also have access to all the financial information in the firm. Moreover, directors and managers sometimes have their pay and bonuses tied to the firm's financial performance. As such, it is not beyond some of them to manipulate the results to favour them. Furthermore, in preparing projections, promoters of a company may prepare very optimistic forecasts in order to entice investors. The standards are also important because they help users in comparing financial reports from different firms and preparers.

The regulatory environment lends credibility to the reports generated and

the accountancy profession. This is because, if firms in dire straits are allowed to pick and choose the methods and standards to apply, they could materially alter the financial results. Discipline is also enforced by the standards bodies rather than by the market and other regulatory authorities (Elliot & Elliot 2008).

Accounting and reporting standards meet the regulations by various ways. For example, the standards require companies to post their financial results at least once a year. The firms also use accounting principles that they have to apply consistently. In cases where they may change them, they would have to justify the reasons and subsequently apply them.

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