Free accounting term paper sample

Business, Company

Financial Accounting and Reporting:

Financial accounting refers to the process of recording, summarizing and reporting of the accounting transactions. The objective of financial accounting and reporting is to provide an accurate image of a company's financial standing to the users of the financial statements. Important to note, that, all the financial reports made under the financial accounting process are as per relevant accounting standards as US GAAP or IFRS.

Financial reporting is the by-product of the process of financial accounting and includes the following:

- Preparation of the financial statements which includes; Balance Sheet, Income Statement and Cash Flow Statement
- Notes to the financial statements
- Press Releases and Conference Calls for declaration of quarterly financial data
- Quarterly and Annual Reports to the stockholders

Users of the financial statements and their varied user of the information in the financial statement:

The primary objective of the financial reporting is to provide true an fair information to the users of the financial statements. However, there is no one specified users of the financial statement. Rather, because of multiple users of the financial statements, the financial statements have to satisfy the unique need of each users of the financial statement. Below discussed are the various users of the financial statements and their specific needs:

1) Management:

Management of the company, which includes the owners and executives, are the primary users of their own company's financial statement. The management uses the financial statements so as to analyze the actual results achieved by the company and at times of deviation from the benchmarks, the management could take the necessary measures. For Instance, on comparing the financial statements over the years, the management could know as what is causing decline in the net profit margins and hence, could take the necessary actions to control that particular factor.

2) Investors/Probable Investors:

Generally, the major users of the financial statements are the investors and the probable investors. These people deeply analyze the financial statements and look for the factors as dividend payout by the company, return generated for the equity holders and stock splits, if any. Similarly, the probable investor can look for the historical trend in the dividend payments and other important aspects that can help them in taking an investment decision.

3) Employees:

The employees of the company are also interested in analyzing the financial statements of the company as their wages increments, new career opportunities within the company and other employee benefits, are all dependant on the financial performance of the company.

4) Creditors and other lenders:

Creditors of a company usually include financial institutions and some debenture holders. These parties are interested in the financial statements so as to know the trend in profit margins being earned by the company. They also look for solvency position of the company as it indicates if the company will be able to honor their long term obligations or not. Similarly, some short term creditors, might look for the financial statements so as to understand the working capital position of the company as in the absence of sufficient cash balances or other liquid current assets, the creditors might not be interested to lend credit to the company.

5) Customers:

Even the customers of the company are important users of the financial statements. However, this may be the case only when there is a significant long term contract between a company and its client. In such case, the customers will be interested to know the financial position of the company and if it will be able to honor the deal it entered into. For Instance, if a reseller enters into a contract with a manufacturing company and during the year, the company is working under poor financial environment, the customers will definitely understand that there are less chances of orders coming on time or even getting completed by the company.

6) Government:

Government bodies, especially the taxation authorities will carefully look for the financial statements of the company. The authorities would analyze the operating income and net income portion of the company, so as to know, as how the tax has been computed by the company. In other words, the authorities are interested to know the tax amount which the company has determined as tax due. Such practices are directed towards achieving low manipulated financial statements.

Legal and Regulatory Influence on the financial statements and implication over the user:

Regulatory authorities are government agencies that have the legal authority to enforce compliance with the financial reporting standards. These authorities and their respective laws have a great influence in the way the financial information is presented. The legal and regulatory changes could be in any form as changes in the federal laws, changes in judicial interpretation of existing laws, political needs etc. To explain the influence of legal changes on the financial statements of the company, we may cite the example of, Sarbanes- Oxley Act, which is considered to be one of the most influential legal changes introduced in the accounting arena by the Federal Government.

The act was passed by the President Bush Government in the year 2002 after the accounting scandals in Enron and Worldcom shook the investor's confidence in the financial statements of the company. Thus, the act introduced strict reforms to improve the financial disclosures from the corporations and to prevent any kind of accounting fraud. Below given are the two important provisions of Sarbanes-Oxley Act:

Section 302: The legal mandate that requires the senior management to certify the accuracy of the reported financial statement of the company.

Section 404: As per this newly introduced section, the management and auditors of the company are required to establish the internal control and reporting methods and should ensure the adequacy of these controls.

Thus, the legal changes and regulatory agencies have a deep impact on the financial statements, but all these changes are directed towards ethical presentation of the accounting transactions and to keep the investor's confidence intact. As for the users, such regulatory measures are somehow beneficial and in the interest of the users of the financial statements. For Instance, one of the primary objectives of Sarbanes Oxley Act was to restore the investor's confidence in the financial statements by ensuring that they carry no manipulation. Hence, regulatory and legal forces do have a deep impact on even the users of the financial statements and the confidence with which they participate in the market.

How different laws/regulations are dealt with by accounting and reporting standards?

As already discussed in the introductory paragraph, the objective of the financial statements is to provide a true and fair vie of the financial statement to the economic decision makers and other users of the financial statements. However, since the accounting literature is so wide and complex that in the absence of any legal rules and regulatory framework, the accountants could easily divert the results the way they want them to be. Hence, the legal and regulatory framework impose a great influence on the financial statements as they ensure that all the accounting transactions are based on realistic assumptions and financial statements provide an accurate view to the users.

However, these regulatory bodies could not contribute anything alone in ensuring ethical presentation of the financial statement without the help of the accounting standard setting bodies . The two accountings standard setting bodies which impose a great influence on the financial statements are Financial Accounting Standard Board(FASB) and International Accounting Standard Board(IASB). As a matter of fact, accounting and reporting standards are there to ensure that the information in the financial statements is useful to a wide range of users. The two accounting standards which are followed by the companies around the globe are, Generally Accepted Accounting Principle (GAAP), set forth by FASB and International Financial Reporting Standards (IFRS) which is set forth by IASB.

Both IFRS and GAAP have a laid framework from their respective standard setting body. Thus, any change in legal regulations over any accounting rule will influence the GAAP and IFRS standards. Hence, for the purpose of convenience, these standard setting bodies update their accounting standards as per new legal regulatory rules. For Instance, after the introduction of Sarbanes-Oxley Act, all the acts and existing legislations dealing with security regulations were required to be amended. Both IFRS and GAAP have followed these regulatory rules and are constantly updating their standards so as to ensure the presentation of the financial statements is not only as per the relevant accounting standard but also as per new regulatory and legal changes.

Works Cited

Accountingverse. com. (n. d.). Users of Financial Statements. Retrieved May 21, 2014, from Accountingverse. com: http://www. accountingverse. com/accounting-basics/users-of-financial-statements. html

Dunn, P. (n. d.). Use and Users of Financial Statements. Retrieved May 21, 2014, from http://www. bookkeepers. org. uk/out/? dlid= 54362

Investopedia. (n. d.). Investopedia. Retrieved May 21, 2014, from Sarbanes-Oxley Act Of 2002 - SOX: http://www. investopedia. com/terms/s/sarbanesoxleyact. asp

Robinson, T. (2011). Financial Reporting Standards. In CFA Institute, Financial Reporting and Analysis (p. 33). Boston: Custom.

Robinson, T. (2011). Introduction: Financial Statements. In CFA Institute, Financial Reporting and Analysis (p. 12). Boston: Custom.

Rouse, M. (2007, September). Sarbanes-Oxley Act (SOX). Retrieved May 21, 2014, from http://searchcio. techtarget. com/definition/Sarbanes-Oxley-Act