

# Understanding financial statements

Finance



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Running Head: WEEK QUESTIONS Week Questions In APA Style By Question

a. The main purpose of the income statement is to show the company's stakeholders how much income the generated both from its operating and other activities (Horngren et al 2004). It also presents how the company earned this income and the proportion which is disbursed in order to cover up its expenses.

b. The balance sheet informs the company's stakeholders how much its resources is and how it is financed. As such, it shows the claims of creditors and stockholders on the company's assets (Fraser and Ormiston 2004). Organized by the level of liquidity, the balance sheet also indicates the relative liquidity of the company, that is, if it is able to pay its liabilities if they become due immediately.

c. The statement of cash flows main purpose is to show if the company generated cash for the fiscal period. It should be noted that the income in posted in the income statement of the company is not necessarily equal to the amount of cash it generate. This financial statement is important as in indicates if the company can be able to have adequate cash for transactions like paying interest, operating expenses, and cash dividends (Keown et al 2005).

Does the purpose change based upon the 'frame of reference' of the user of the reports (i. e. Banker, Vendor, Proprietor, Investor, etc.) Defend your position.

I believe that the purpose of these financial statements do not vary according to the frame of reference. However, the user of financial information chooses which statement to use according to their purpose. For example, a creditor and stockholder will be most interested in the company's

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income statement because it reflects whether the company can pay them during the period or if the company has created shareholder value. On the other hand, a potential investor could be interested in the balance sheet as it shows how the company's assets are financed.

2. Ethics is a reflection of an organization's culture. Classify the following issues (ethical, unethical) and provide rationale for your response:

a. Prizes are given to purchasing agents who buy products and services from your company.

Ethical. The company can be considered to be only using these prizes in order to motivate the sales agents to buy from them. It is no difference from giving discounts to purchases.

b. Prizes are given to your company's sales representatives for exceeding sales goals.

Ethical. This can be considered as a case of performance based compensation where employees are rewarded for reaching their quota.

c. The company pays the Company President's gardener. By the way, the gardener maintains the grounds at the company's headquarters as well as the private residence of the President.

Unethical. One of the most important concept in accounting is the entity concept where personal transactions should be separated from business ones.

d. \$50 cash prizes are awarded to employees with good ideas.

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Ethical. Again, this is a case of motivating employees by rewarding them for their contributions to the company. It should be noted that a lot of organizations are doing this to show how they appreciate the contributions of each employee to the company's success.

e. A request for proposal (RFP) is solicited from your company. Instructions require a \$1000 non-refundable processing fee to accompany the bid.

Unethical. I don't think a non-refundable processing fee should be sought in this situation. It is highly unethical for a company to solicit money together with the proposals.

f. A company does business in a foreign country where 'bribing' government officials is not only the norm, but the only way to operate in that country.

Unethical. I believe that the company should uphold its ethical standard to the point of refusing to enter any transaction where its moral excellence is tainted. It should be noted that these bribes are not credited to the country's wealth but is only beneficial to the one collecting it.

g. The Board of Directors for a company is made up solely of family members.

Unethical. This is unethical especially if there are various owners because it can affect the decision making in the company. These family members can make decisions which will benefit them but can harm other stockholders.

h. An employee needs a certain software package to do company business at home. Not having the software, the employee uses the company's software

distribution CD to load the program at home.

Ethical. This is ethical as long as the software is for business and not for personal use. The company should provide employees with all that they need in order to accomplish their tasks efficiently.

## References

- Fraser, L. & Ormiston A 2004, Understanding Financial Statements, Pearson-Prentice Hall: Upper Saddle New Jersey
- Horngren , C. et. al.. 2000, Accounting. 4th ed. New Jersey: Prentice Hall
- Keown, A. J., Martin, J. D., Petty, J. W., and Scott Jr., D. F, 2005, Financial Management principles and applications, Pearson/Prentice Hall International Edition, 10th Edition.