Clarifying financial reporting

Finance

Potential investors may also consult the footnotes of financial statements for a more complete picture of our finances, or more information about a certain topic. For example, a company may mention a pension plan expense in the balance sheet, but explain the investments, returns, and parameters of the plan in the footnotes.

The information contained in financial reporting must be both relevant and reliable to the user – relevant data must be recent enough to be useful and be confirmed in the future as well as confirm older data, and reliable in that different users are able to use the same information to come to similar, if not the same, conclusions about the company's economic status, and unaffected by our own concerns within the business. (36) The latter means that no one is permitted to skew information's presentation to better our image so that the data is dependable for any user, whether internal or external.

The information in financial reporting must also be comparable to other companies in our industry – if a practice is normally used, we should use it also so that it is easier for investors to read our reports – and consistent. (37) Should an accounting practice change, it needs to be very clearly stated and if necessary, we should adjust former periods' information so that the impact of the change is easily discerned. Consistency is a critical attribute for us to demonstrate so that users are able to watch the trends of our company's success without worrying that we adjust accounting practices to improve the bottom line when having difficulties, and comparability is so that users are able to compare us to our other industry members.

A last feature of the above information is the ' matching principle' that is required by U. S. GAAP. The matching principle is a simple rule – any expenses incurred in the current period must be matched to any revenues incurred in the current period. (45) This is a component of when we recognize revenue, and has a direct impact on the balance sheet.

The above information should be helpful in understanding how our accounting practices work, and why they are so important for our investors and creditors. If anyone has a more specific question, please email.

Works Cited

Kieso, Donald E., Jerry J. Weygandt, and Terry D. Warfield. Intermediate Accounting. 13th ed. International Student Version. Hoboken: John Wiley and Sons (Asia) Pte Ltd, 2010. Print.