

Users of accounting statements and their needs



Introduction

End products of financial accounting can be summed in the form of financial statements. It maintains a formal record of all the financial activities that are done by a firm, an individual or an organization for that matter. It has the ability to describe the financial health of the entities that have been mentioned. There are basically four types of accounting financial statements used by different organizations for different purposes. They have been mentioned as follows:

Statement of Financial Position: This statement is commonly known as a company's balance sheet. It has vital information pertaining to assets, liabilities, equity etc at a particular point of time. It is generally maintained on a quarterly basis in every company also having its use on annual basis in a number of conditions.

Statement of Comprehensive Income: This statement is commonly known as the Profit & Loss Statement. It talks about the income of a company, its expenses and the profits that it makes in a particular period of time. It also mentions the operations of an entity as to how much sales it made and the expenses that were taken to make these sales possible.

Statement of Changes in Equity: This statement as the name suggests, talks about the changes made in equity in a particular company over a period of time.

Statement of Cash Flows: This final financial statement talks about the activities of an entity in which cash flow had been used. This is related to operating, investing and financing activities.

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All these different financial statement have their respective significance for different organizations. The subsequent sections discuss the form of statement required for each of the respective organizations associated with the same. (Kumar, 2009)

External Users and their Needs

Accounting financial statements are of use to those organizations which contain a substantial degree of knowledge of the business, economic and accounting activities and have a willingness to study the same for their respective purposes either financially or academically. Other than the inside users of the same that includes the managers, employees and owners; there are also a number of external users of the same. They have been mentioned as follows:

Institutional Investors

These are the external users of financial statements who generally use the financial statements to assess the financial strength of a particular company. This is required so that they would be able to make logical conclusions about a company and make recommendations to their clients. The form of statement that is of use to them is generally the balance sheet and the profit and loss statement. At times, they are also interested in knowing the change in equity so as to assist people in buying shares of a company.

Financial Institutions

The second important users in this context are the financial institutions. They generally include banks and other institutions that have a capacity to lend money to a particular entity that has been mentioned earlier. Under most cases, these financial institutions assist the entities with meeting their

working capital requirements and to give debt security to them. They are solely interested in a company's balance sheet. With a true picture of the places where the company has made investments and the present scenario in which it exists, these financial institutions make their respective decisions. (Users of Financial Statements, 2009)

Government

There are various reasons for which the Government of a particular company uses the financial statements. In the first place, the most commonly known reason is that it wishes to see whether a company has paid proper taxes or not. Also, it is able to ascertain whether it is in line with the financial strength of the company or not. The second reason these days is that a number of companies have started to do social activities in the form of CSR (corporate social activities). As a result of this, Governments have made plans in assisting them with their financial needs to carry out their objectives. On most occasions these objectives are beneficial for the entire society. For both the purposes that have been mentioned, the Government has to look at the balance sheet of a company. It gives fair idea of the company's business endeavours and also fulfils the requirement of knowing whether taxes have been paid appropriately or not.

Vendors

This group is also of vital significance these days. The reason for the same is that vendors extend their help in providing credit to entities that have been mentioned. In order to do so they require knowing the creditworthiness of the business they are extending their hands to. In most cases these vendors make their decisions after having a look at the profit and loss statement of

company. On some occasions they are also interested in knowing the cash flow statement of the firm. Most of the businesses these days are financed through vendors. Hence, the companies require being highly presentable in getting help from them. This has become more commonplace after the recession period where companies went under a big slump.

General Mass and Media

The common people are the biggest users of the financial statement of a company. One of the basic reasons for the same is that a number of people are now interested in buying shares and to make their future plans with respect to buying shares of a company, they need to make a gradual assessment of the same. This is maintained by having a look at the company's balance sheet and the change in equity statement. Also, media is a significant user of financial statements. For those masses which are either not educated enough or aware enough of financial health of a company, the media leaves no stone unturned in helping them acquire knowledge of the same. They generally publish financial statements in newspaper or show them in various breaks on television or on the Internet for the common people to make an understanding. They also use the balance sheet but at times make themselves more authentic using the profit and loss statement of a company.

Rating Agencies

There are a number of companies that are using accounting financial statements to assign credit ratings to other companies. These are called as rating agencies. They include big names like Moody's Standard and Poor's, Dun and Bradstreet & also Chrysel. This again becomes useful in

understanding the financial health of a company. These agencies generally require the balance sheet in reaching their outcomes. Based on the ratings they provide, individuals can draw a financial perspective of the company that has been assessed by them.

Competitors

This group or organization also becomes one of the most significant of the drawers of accounting financial statements of a company. In order to stay neck to neck with the world, every competitor requires knowing the type of investment that is being made by other companies in the market. Also, they need to know the profits they are making out of investments. Since, financial statements also give an idea of the future plans of a company in terms of long term investments, they become all the more useful for the competitors. As it is most significant value to them, they make use of all the four types of financial statement- balance sheet, profit & loss, cash flow and change in equity. Even the new entrants in every industry are making use of the accounting financial statements. Their basic mode of starting a business is from studying the financial statements of the already existing leaders of the market. A lot of marketing research did by companies also take account of the financial statements of companies which helps them in making future plans. Subsidiaries of companies like ' Standard and Poor's' (Capital IQ) use a lot of financial data from financial statements to make their assumptions.

Important Organizations and Groups

This is the largest category of people who require accounting financial statements. There are a number of politicians and issue groups which require the balance sheet and profit & loss statement of companies to raise a public

issue that the actions of a particular company can lead to. Also, these days, such information from accounting financial statements are being used by lobbyists, environmentalists as well so that they could raise public issue for activities of a particular company. They do this from the perspective of social benefit of the people. They have also been given high proclamation for the same in the recent past. The reason for the same is that a number of companies have now crossed the lines of commercialization and looking to make incessant profits from even the smallest of their financial inputs. They are on a number of occasions of extreme harm to the society as a whole. By studying the balance sheet and profit & loss statement of companies, such activists bring retardation to such initiatives. Hence, they are of extreme importance to the society. (4 Financial Statements, 2011)

Conclusion

By above discussion it can be concluded that the significance of using financial statements as accounts is that it is written in the most structured manner so that one can make a perspective of an entity's financial health. Both internal and external requires these statements but purpose for internal and external use may vary according to user group.