

The published financial statement accounting essay



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Annual report and accounts consists of different elements. A financial statement contains the financial information which is communicated to various users depending on their needs. The users can be internal or external users. The importance of this information varies, depending on the needs of specific users but according to the framework, the publication of financial information serves to reflect and to provide a clear image of the financial situation and performance of the entity which will help them to make a financial decision. Thomas and Marie (2012, 55). Users need financial information to assess the way the company uses its liquidity to fund its operations and investment, to be informed about its financial position and the nature of its resources for daily transactions, to estimate or predict the circumstances that may affect them, to be informed about the extent to which the company follows the laws and regulations. Usually the performance information is represented on the income statement, the financial situation is represented on the balance sheet, and the information about changes in financial position is supplied in the notes to financial statements.

Financial statements are the principal means of communicating financial information to various users. The framework defines seven essential users (Jill and Roger, 2007) but in contrast, Peter and Eddie (2002p 3) state that there are internal and external users who already have a relationship with the firm in economic terms or those who are interested in a future relationship.

Starting with managers, Petter and Eddie (2002. 3) noted that managers need information to assist them to make the decision and adopt and strategy

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of planning for the future. Furthermore, the manager who has been put in charge of presenting financial statements also needs this information to be sure that the management style, strategy and planning adopted are beneficial to the financial performance of the company.

The conceptual framework states that the employees are principally interested in the type of information which permits them of having a clear idea about the stability and the performance of the company that they work for (Thomas and Ward, 56 2012). Employees need information in order to ensure the stability of their jobs in the future, and to measure their ability to determine if there is a chance of getting a higher pay or promotion, and other benefits.

The Investors need information about management policy, performance, stability and financial position of the company as well as to assess the risk and benefits provided by the investment in order to make a decision. Also, they need information to help them choose the proper time for transactions like buying and selling. Thomas and Ward (2012: 56)

Lenders are always taking risks which is why they choose the contract with lowest risk the framework noted that “ they are interested in information about performance and economic stability of the company, and also the information about the situation of liquidity available in the present and the future, in order to ensure whether the borrower is able to meet the deadlines for the payment of their loans and the interest. (Thomas and Ward, 2012: 57).

Regarding suppliers and other creditors, Thomas and Maries said that giving a loan and outputting goods without immediate payment is the same. This is the reason, they will be interested in the information that will help them at the beginning to decide whether to engage with company or not, and also to study the duration and the amount of credit to offer. According to the framework, suppliers and other creditors are interested in information that enable them to know whether they will be repaid at due date. Yet Suppliers and others creditors are interested in engaging with the enterprise for a shorter period compared to lenders who are concerned about liquidity position and the supplier seeks to know if there is a growth within the company and compare it with these production capacities.

Jill and Roger (200741) states that the customers are interested in the information that enable them to evaluate the performance and ability of the company to continue its business and to know their capacity to meet the requirements of quality, the quantity and time to provide goods and services depending on customer needs.

Governments and their agencies are composed by the tax authorities, financial and organization like central bank that has authority of control and regulations. Principally, the information is used as basis for calculating dues and taxes that the company has to pay. It has noted that the government and their agencies are interested in information about profitability and how it is distributed, with the aim of determining the tax policy, as they need information on the conduct of activities of entities to adjust them. (Thomas and Ward, 582012)

The public is also interested in information about the performance of the company in order to define the level at which the company is progressing and its impact on economic development and social environment.

To ensure that the information is useful to users for decision making, four qualitative characteristics need to be present in the information.

Understandability - the user must understand the information directly but should have basic knowledge of accounting and the economy. Relevance - information must meet the needs of users in order for them to make decisions and enable them to compare the events of different periods.

Reliability - information must be reliable to give a real image of transactions and other operations. Comparability - the information has to be available for comparison over time to determine the situation and the economic performance. (Jill and Hussey, 422007)

It is true that the financial information addresses different user groups under standard characteristics, but it still has limitations on the usefulness of the information. The financial statement is based on historical costs. That is to say it is only monetary operations but the declaration is not correct. Also, with regards to the intangible assets there is no possibility of measuring the values of all of them in the sector of accounting.

For instance, human resources are also ignored in most financial statements, and the brand value of the company is not on the statements either. Inflation is not included in the present value and all the information are based on estimates, so there is no real value on which the user can rely on. The financial statement does not take into consideration any anticipated financial

condition that can happen in the industry and market which might affect the performance of the company and the decision taken by the different users of the financial statement which contains only financial information and ignores the non-financial information which is not sufficient for certain users as the case of public and employees. In contrast, investors are more concerned than other users by information presented in the financial statement.

To conclude, the company is obliged to communicate the information under financial quality standards that are useful to different users, which are a total of eight. They are; managers, investors, customers, suppliers and other creditors, employees, lenders, government, and the general public. The objective of this information is to reflect the performance, position and stability of the company for the user to make a good decision. Despite the quality and control, the rest information is still not reliable and useful for certain users to make a decision.