

# [Financial statements essay](https://assignbuster.com/financial-statements-essay/)

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Financial statementsThe Financial Statements are reports containing financial information about an organization and this includes the Profit & Loss Statement, Balance Sheet, and Cashflow Statements. A general or all-purpose statement is prepared to reasonably meet the varied needs of most parties interested in the business; while a special purpose statement provides data useful to specific party for whom such statement is intended. The financial statements may be prepared in a detailed or condensed manner depending on the needs of the users. The frequency of their preparation depends also on the needs of the users. Aside from traditional annual reports, interim statements are being prepared by some business enterprises.

The financial statements includes the Profit & Loss statement, Balance Sheet and cashflow statements. The Profit & Loss Statement also variously called earnings statement, income statement, and the statement of operations, summarizes business activities for a given period  and reports the net income or loss resulting from operations and from certain other defined activities. The measuring and reporting of business income has acquired steadily increasing importance and, at present, accountants generally regard this as one of their most important responsibilities. The Balance Sheet  also known as statement of financial position, and statement of condition, reports as of a given point of time the resources of a business (assets), its obligations (liabilities), and the residual ownership claims against an entity’s resources (owners equity). By analyzing the relationships among these items, investors, creditors, and others can assess a firm’s liquidity, i. e., its ability to meet short-term obligations, and solvency, i.

e., its ability to pay all current and long-term debts as they come due. The balance sheet also shows the composition of assets and liabilities, the relative proportions debt and equity financing, and how much of a firm’s earnings have been retained in the business. The Cash flow Statements is a financial report that shows incoming and outgoing money during a particular period. The statement shows how changes in balance sheet and income accounts affected cash and cash equivalents and breaks the analysis down according to operating, investing, and financing activities.

As an analytical tool the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7, is the International Accounting Standard that deals with cash flow statements. To illustrate, P&L statement and Balance Sheet of ABC Store.

were shown belowProfit & Loss StatementFor the year ended December 31, 2006SALES                                                                                            $          350, 000Less: Cost of sale                                                                                      175, 000GROSS PROFIT                                                                                        175, 000Less: Operating Expenses            Salaries                                24, 000            Rental                                               12, 000            Light & Water                         5, 000            Supplies                                 2, 500            Representation                     2, 000            Miscellaneous                       1, 500                                                 47, 000NET INCOME                                                                                            128, 000BALANCE SHEETAs of December 31, 2006                                     ASSETSCash                                                                          $          100, 000Accounts Receivable                                                              25, 000Inventory                                                                              200, 000TOTAL CURRENT ASSETS                                          325, 000Investments                                                                             50, 000Property, Plant & Eqpt.                                                        125, 000TOTAL ASSETS                                                                500, 000                  LIABILITIES & OWNER’S EQUITYAccounts Payable                                                      $            50, 000Notes Payable                                                                         75, 000TOTAL LIABILITIES                                                        125, 000ABC, capital                                                                         375, 000TOTAL LIABILITIES & OWNER’S EQUITY            500, 000REFERENCES: Stice, Earl.. et al. 2004. Intermediate Accounting.

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