

# Financial statements essay

[Business](#), [Accounting](#)



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 below Profit & Loss Statement For the year ended December 31,

2006 SALES				\$
350,000				
Less: Cost of sale			175,000	GROSS
PROFIT			175,000	Less:
Operating Expenses	Salaries		24,000	
Rental		12,000		Light &
Water	5,000	Supplies		2,
500	Representation	2,000		
Miscellaneous	1,500			47,000 NET
INCOME				128,

## BALANCE SHEET as of December 31, 2006

ASSETS			
Cash		\$	100,
Accounts Receivable			25,
Inventory			200,
TOTAL CURRENT ASSETS			325,
Investments			50,
Property, Plant & Eqpt.			125, 000
TOTAL ASSETS			500, 000
LIABILITIES & OWNER'S EQUITY			
Accounts Payable		\$	50, 000
Notes Payable			75, 000
TOTAL LIABILITIES			125, 000
ABC, capital			375, 000
TOTAL LIABILITIES & OWNER'S EQUITY			500, 000

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