

# Impact of financial statement essay

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



The management of company can control the financial of company through financial statements because it gives detail in all kind of financial record to management. There are three financial statements (i. e.

Profit and loss statement, balance sheet, and cash flow statement). Financial statements should be understandable, relevant, reliable and comparable.

Profit and loss statement (income statement): it reports all incomes, expenses in order to calculate the profit of company in the period of time. It gives information for internal and external stakeholder whether company makes profit or lost in one specific period of time. Based on income statement, manager can evaluate all kind of incomes and expenditure to give decision in order to make profit for company. Balance sheet: is a statement which records the asset, liabilities, debt and capital of on organization.

The balance sheet is the only statement which applies to a single point in time of a business' calendar year. A balance sheet summarizes an organization or individual's assets, equity and liabilities at a specific point in time. Individuals and small businesses tend to have simple balance sheets. Larger businesses tend to have more complex balance sheets, and these are presented in the organization's annual report. Large businesses also may prepare balance sheets for segments of their businesses. In addition, balance sheet is a measurement of both long-term and short-term of staying power of the. Therefore, manager and investor are given information about the ability to pay back the liabilities or debt, how many asset and capital company have through balance sheet. Cash flow statement: is a statement

which gives more detail where a business gets capital, investment from and how and where the firm uses these capitals for.

It is important for large company to prepare a cash flow statement. Cash flow provides information on a firm's liquidity and solvency and its ability to change cash flow in future circumstances, additional information for evaluating changes in assets, liabilities and equity. Furthermore, the cash flow statement is intended to improve the comparability of different firms' operating performance by eliminating the effects of different accounting methods and indicate the amount, timing and probability of future cash flows. Moreover, the cash flow statement is useful to determine the ability to pay debt or bills.

. Impact of finance on financial statement When changes occur in the assets of a business, these changes are reflected in the asset values reported on the Balance sheet. Quite often, purchases of equipment, machinery, buildings, and property are necessary. A purchase increases the fixed asset value of the company; it is also a change that is reflected in the Net Cash from investing activity.

When a company spends money to purchase equipment, machinery, buildings or property, if the money spent is taken from cash, there will be a significant change in this area of the Statement of Cash Flows. If the money is borrowed, there will be a significant change in the Net Cash from financing activity. Changes found in these areas should flag the need for further examination of the Balance sheet in order to accurately assess the actual financial condition of the business. When you see significant changes in the

balances for the financing and investing totals, there should also be changes in the assets and liabilities area of the Balance sheet. When the company spends money for the business, money during the time period in operating and other expenses will affect to profit and loss statement. This can be beneficial to determine how the business may be able to cut some.

II. Solution In order to be successful in businesses, it is necessary for Trek Bicycle PLC to have some appropriate solutions to improve their financial performances. As an advisor of Trek Bicycle PLC, we propose some specific solutions below. Firstly, the company must have a realistic goal. If one company plans on raking in millions within a year after investing only a few thousand dollars, then their goal is something that belongs in story books.

What really drives financial performance is setting smart objectives based on clear goals, and then creating detailed action plans or strategies that will lead to the objectives being achieved. Being realistic is not setting the bar lower. It allows the company to assess their capabilities as well as the capabilities of the business. Set a goal that Trek can accomplish within the first quarter of the year, such as reach a higher ROCE than the industry.

Secondly, Trek also needs to control their capital effectively by attracting investors in the market. Specifically, Trek Bicycle PLC needs to have their analysis of expected future market conditions is convincing and realistic. Additionally, the investor will be looking closely to see if the working capital needs, production capacity and personnel requirements Trek Bicycle PLC predict are consistent with the level of growth Trek Bicycle PLC forecast.

Thirdly, in terms of debt, operating debt should be self-liquidating. The managers should use operating loans to finance profitable production activities only. They should repay the annual operating loan in full each year. They should set up all other debt, including operating debt carry-overs, over a long enough term to ensure the debt can repaid with projected net income. After calculating the debt/equity ratio of Trek Bicycle, it is good for Trek Bicycle PLC to make the debt/equity ratio smaller and smaller, so they can reduce more risks in the businesses.

Finally, increasing productivity and decreasing operational costs are also good solutions. So as to achieve this goal, Trek Bicycle PLC must have better working condition for their employees as well as must train their employees to be more skillful. Furthermore, Trek Bicycle PLC can decrease their operational cost by many ways. For example, in terms of property taxes, make sure Trek Bicycle PLC have a very knowledgeable consultant evaluating these each year. This will not only ensure Trek is paying what is fair, but will make sure their property taxes are in line with Trek Bicycle PLC's competition.