

How can we overcome the limitations of financial statements?

[Finance](#)



Financial statements are an important source of information to multiple groups of people. These people may belong within the organization or they may be outsiders. The internal users of financial statements include managers, financial analysts, CFOs and accountants. Whereas external users may include government agencies, such as tax agencies and the securities and exchange commission, financial consultants, investors, creditors, etc.

Now there are certain limitations that financial statements have, and this may cause problems in making intra and inter-company comparisons.

In order to minimize or overcome the short-comings of financial statements investors, accountants, CFOs have all developed different analytical tools and techniques. For internal users, especially managers, performance measures have played a significant role in minimizing the effects of these limitations. Analysts now use tools that aid in valuing company's performance beyond financial results, bringing factors like leadership, patents, specialized workforce, brands and human resources into the picture. Technology has removed a lot of barriers, especially with respect to finance, as companies today are also implementing financial data warehouses the use of which makes it a lot easier for organizations and individuals to make decisions that are logical and in most cases correct.

Moreover, some companies are also voluntarily disclosing information about their strategy, key success factors and their management objectives in supplements to their financial statements. This gives the investors, creditors, and other external users of financial statements more of an idea of what the firm is about and where it may be standing in a couple of years from now.

REFERENCE

Helfert, Erich A. (2001). Financial Analysis Tools and Techniques: A Guide For Managers. McGraw-Hill.