Financial statement review

Economics, Money

Financial StatementReview University of Phoenix ACC/561 Financial Statement Review Introduction Financial statements play a significant role in each and every type of business. The financial statements provide a wealth of information to auditors, creditors, investors, suppliers and other important venues that need access to this type of information. This paper will discuss four different types of financial statements and how they are utilized by vendors, creditors and others. The four financial statements that will be reviewed are the income statement, balance sheet, cash flow statements and statement of retained earnings.

Income Statement Beginning with the income statement, the information provided includes the amount of revenue that the company earns over a certain period of time. The period of time is usually a year or some a portion of a year. An income statement reveals the net worth or loss of a company reporting on the costs and expenses associated with the revenue earnings. Balance Sheet The balance sheet is a snapshot which examines the business. This statement records assets, liabilities and the equity of a company at a particular point in time.

The equation used for the balance sheet is assets = liabilities + shareholdersequity. Assets are those things that the company actually owns or controls. The liabilities are represented by the debt or financing that was taken out to acquire those assets. Equity is thatmoneythat has been provided by people or stockholders to keep the business afloat. Statement of Cash Flows The statement of cash flows statements reports over a period of time and covers cash inflows and outflows. Generally the statement of cash flows refers to the day to day operations or operating cash flows, cash from investing and cash from financing.

It is difficult for a company to manipulate the cash flow and therefore is a very important financial statement. Statement of Retained Earnings The statement of retained earnings reports on changes in retained earnings for a specific period. The statement of retained earnings reconciles the beginning and ending retained earnings for that period and will include net income from other statements. It is an inclusion to either the balance sheet or the income statement and not a stand-alone financial statement. Importance of Financial Statements Financial statements have a significant impact on the successfulness of a company.

Depending on whether you're an investor, creditor or manager, the information that is most crucial will depend on who you are. An investor is concerned with the bottom line and the overall value and growth of a company. A company's earnings and revenue can be compared to the stock price. As an investor the balance sheet, income statement and statement of cash flows is important. Investors will review the information and determine if the company overcame any obstacles and if there is still room for growth. They will also review the net income / loss and the history over previous years to determine any growth or potential for growth.

As a creditor, information that is important is the current amount of debt and the amount of cash that is available to pay back that debt. The statement that would be most beneficial would be the balance sheet. The balance sheet contains all of the assets to include cash and cash equivalents and current liabilities as well. It is important to know the current ratio for a creditor to determine the worthiness of the company and the ability to pay both short term and long term debts. A manager is going to be concerned with all statements.

When questions are asked by investors and creditors it usually falls back on the manager. It is important for a manager to know the financial position of an organization as it relates to them. Conclusion It is clear that all financial statements play an important role within an organization. The information needed is dependent on who is reviewing the information. The information needs to be reported accurately and efficiently and will cover a specific point in time or a certain period. References Kimmel, Paul D. (2009) Accounting: Tools for Business Decision Making (3rd ed). John Wiley & Sons, Inc.