

FINANCIAL STATEMENTS



MEANING: Summarised statements and reports prepared by business concerns to disclose their accounting information and communicate them to the stakeholders.

DEFINITION: Financial statements are prepared for the purpose of presenting a periodical review or report on the progress of the management and deal with i) the status of the investment in the business and ii) the results achieved during the period under Review-AICPA (American Institute Of Certified Public Accountants)

Includes:

1. Profit and loss account(income statement)
2. Balance sheet(position statement)
3. Cash flow statement
4. Funds flow statement
5. Statement of retained earnings
6. Schedules

ESSENTIALS

- Principle of consistency
- Convention of disclosure
- Disclosure of accounting policies
- Preparation at regular intervals
- Consistency in the format

IMPORTANCE/ FUNCTIONS /USE

- Management : helps to exercise cost control and helps in taking decisions.
- Creditors :helps to know the short term solvency of the concern.
- Bankers :helps to determine financial strength and profitability.
- Investors :helps to know the security of the principal amount and return from investment.
- Government: used to assess tax liability of the concern.
- Others(trade associations, stock exchange , public etc.)

CHARACTERISTICS OF IDEAL FINANCIAL STATEMENTS

- Depict true financial position
- Effective presentation
- Attractive
- Comparability
- Analytical representation
- easiness
- Brief
- Promptness

LIMITATIONS

- Fails to disclose all information
- Fails to disclose present value
- Fails to disclose vital changes in the organisation
- Insufficient information to investors
- Personal judgement
- Misleading figures
- Not sufficient for decision making

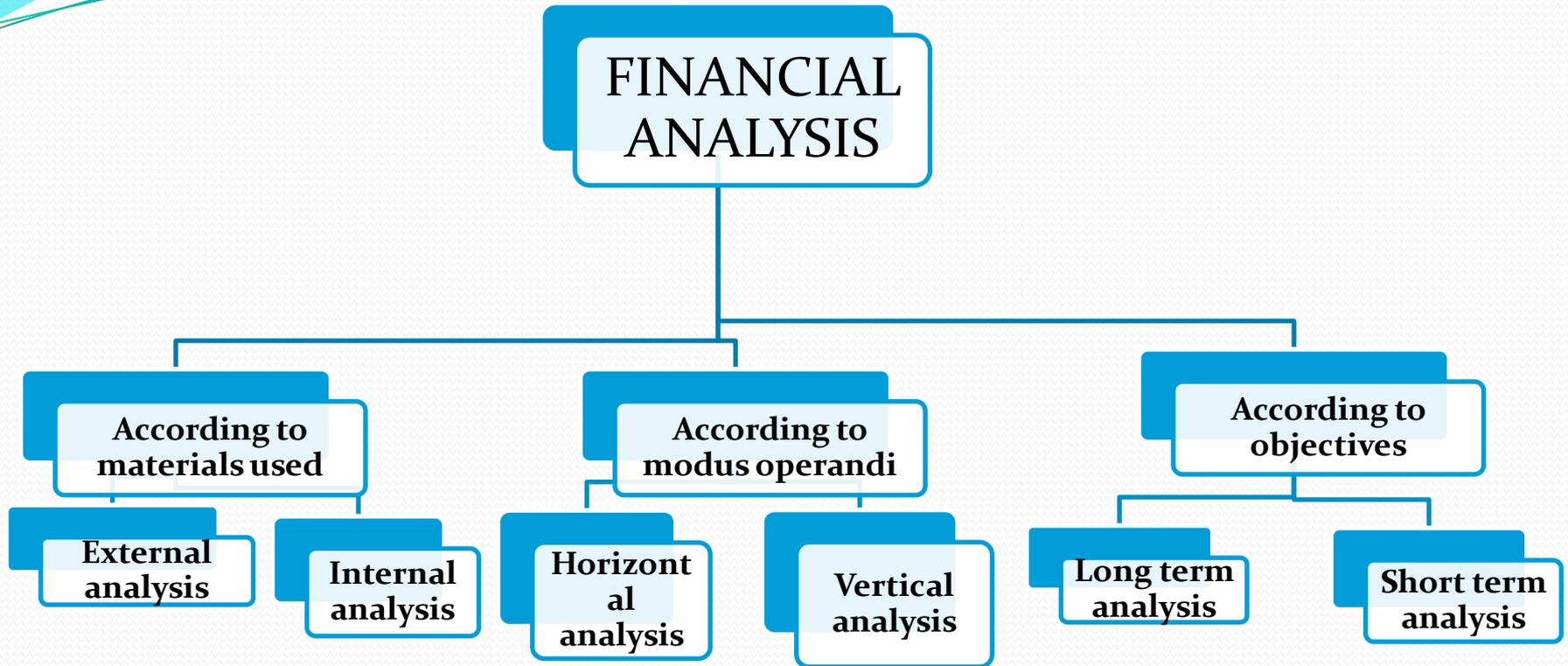
ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

- ANALYSIS :“ *is a process of evaluating the relationship between component part of a financial statement to obtain a better understanding of a firm’s position and performance*” - Metcalf and Titard
- INTERPRETATION : drawing inferences or conclusions on the basis of analysis conducted on the financial statements.

OBJECTIVES/IMPORTANCE/ADVANTAGES

- Efficiency of operation
- Measures financial position and performance
- Long term liquidity of funds
- Solvency
- Future prospects of the firm
- Progress of the firm

TYPES



TECHNIQUES

- Comparative financial statements
- Common size statements
- Trend ratios
- Average analysis
- Statement of changes in working capital
- Fund flow analysis
- Cash flow analysis
- Ratio analysis