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Overview on Implications of Financial Statements in a Business Firm

Shweta Pathak[1], Dixit Shubham[2], Gupta Aniket[3]
Asst. Professor[1] and TYBMS[2,3]
Uttar Bhartiya Sangh's Mahendra Pratap Sharda Prasad Singh College of Commerce & Science, Mumbai, Maharashtra

Abstract: *The main aim of this study is to ascertain, predict, and evaluate future economic conditions and the performance of firms. The additional aim of this study is to evaluate the financial statement and furnish financial managers with data to facilitate educated decision-making for the organization. The financial statement utilizes essential tools, techniques, and procedures for doing corporate analysis. It is a diagnostic tool used to analyze funding, investment, and operational activities. Additionally, it serves as an evaluation tool for management decisions and other company choices. Financial account analysis, also known as the examination of financial reports, is employed by managers, shareholders, investors, and other interested parties to assess the condition of a corporation. Managers utilize financial reports to evaluate the firm's condition and provide shareholders with information regarding the sufficiency of the company's investments. For prospective investors, analyzing the company's financial statements is essential as they need to ascertain the company's actual state before making an investment decision*

Keywords: Financial analysis, financial reports, balance sheet, decision-making, profitability, and liquidity

I. INTRODUCTION

Accountants and financial analysts employ many approaches to evaluate the financial well-being of a corporation. The objective of the financial analysis is to equip financial managers and analysts with the requisite knowledge to make well-informed decisions for the organization. It is imperative for every manager to possess the ability to assess the financial condition and operational effectiveness of a company in order to make optimal and suitable decisions for the organization. Financial statement analysis is a systematic procedure used to assess and assess the status of various components of the balance sheet, which plays a crucial role in making important decisions. Financial analysis involves the thorough assessment of an enterprise's historical, current, and projected balance sheets. Individual balance sheet position values get greater analytical significance when contrasted to the values of other positions on the balance sheet. Financial analysis involves examining a company's financial statements through the analysis of reports. Report analysis is a method that enables the computation and explanation of reports utilized by investors, creditors, corporate executives, and other individuals.

II. FINANCIAL STATEMENTS

According to the Accounting Standards, financial statements are a systematic portrayal of a company's financial position and activities. Accounting collects, processes, and presents economic information using the primary financial statements. The objective of financial statements is to offer information on the financial situation and changes as a crucial basis for managerial decision-making (Asllanaj, 2008). The purpose of financial statements is to give economic decision-makers with information about a company's financial situation, financial performance, and changes in financial position (Lewis, &Pendrill, 2004).

The financial statements and reports resulting from their research provide information regarding -

- Assets
- Liabilities
- Equity

The cumulative consequences of management's prior decisions are reflected in financial statements (Helfert, 2001). Financial statements are the business records used by organisations to report the outcomes of their activities to various

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user groups, such as management, investors, creditors, and regulatory bodies. In turn, these parties use the disclosed information to make several decisions, such as whether to invest in or lend money to the company (Charles, Walter & Thomas, 2012).

The principal financial statements comply with International Accounting Standards (IAS):

- income and expense statements,
- balance sheet,
- cash flow statement,
- statement of equity changes
- statement of explanation

2.1 Statements of Income & Expenditure

This statement depicts the financial performance of a company over a specific time period (monthly, quarterly or annual). It provides a summary of the incomes and expenditures incurred to generate the income.

- Income - is the amount of assets generated by a business's operations.
- Expenditure - represents the amount of assets consumed during the operation of a firm, as well as the flows and liabilities incurred during the production of goods and services (Asllanaj, 2008). The difference between income and expenses constitutes net income or net profit.

2.2 Balance Sheet

The Balance Sheet provides a summary of the balances of the assets, capital, and liabilities accounts as of the date of its creation for a specific time period. The name of the balance sheet derives from the premise that between the total assets on one side and the total capital and liabilities on the other, there must be a balance.

The following equation (Xhafa, 2005) expresses this equilibrium:

Assets = Liabilities + Capital (Equity).

Assets are rights or other access to future economic advantages possessed by an entity because of past transactions or events. Liabilities are the duties of an entity to transfer economic gains stemming from past transactions or occurrences (Lewis, &Pendrill, 2004). Capital is a form of duty owed to the owners because it symbolises their rights to the corporation's property. In reality, the demands of the enterprise's asset owners are equal to the quantity of assets remaining after deducting all obligations (Asllanaj, 2008).

2.3 Statement of Cash Flows

The primary objective of a cash flow review is to give corporate information regarding activities that affect cash inflows and outflows within a fiscal period. In other words, the cash flow statement details the sources and uses of cash (Asllanaj, 2008).

- Direct approach - demonstrates cash collected from consumers, interest and dividends earned, other cash inflows, cash paid to suppliers and staff, interest paid, taxes paid, and other operating expenses.
- Indirect approach - begins with net income and adjusts for deferred items, liabilities, non-monetary items like depreciation and amortisation, and non-operating factors such as gains or losses on the sale of assets.

Money flows and capital transfers are separated according to activities (Lewis &Pendrill, 2004):

- Transactional activity
- Investment activity
- Financing activity.
- Operational activities - are the primary revenue-generating activities of the firm and other activities that are not investments or financing activities.
- Investment activities – comprise the purchase and sale of long-term assets and other investments not included in cash equivalents.
- Financing activities - are actions that alter the size and composition of the enterprise's equity capital and debt.

III. CONCLUSION

The study of financial statements is a crucial step in the decision-making process, and is even required. Internal and external decisions are based on financial analysis and accounting information. From the study of financial accounts, we may determine the enterprise's financial condition, how it has functioned over the analysis periods, and its future trends. These reports are also used to provide shareholders with information regarding the reasonableness of investments made in the company, as shareholders are interested in making a profit from their investments. Potential investors utilise these reports to determine whether or not to invest in a firm after first evaluating its performance.

After calculating, evaluating, and interpreting the numerous financial reports of the company, we've determined that the company's liquidity is better in 2016 because it has more short-term assets to cover its short-term liabilities, resulting in higher working capital. Regarding profitability ratios, 2016 is a stronger year, and the use of assets to produce revenue is more efficient; as a result, this year has a higher turnover and a higher return on capital.

From the turnover assets ratio, it can be seen that the company is more effective in 2016 because it was more likely to collect customer debts (Receivable Accounts) in this year, but it was also more effective in inventory sales, whereas with regard to payable accounts, the company paid its debts to suppliers more frequently in 2015, which is good because the company should not lose these vital sources of funding.Analysis of financial ratios of long-term solvency reveals that the company is less financed by debt in 2015, as the smaller the value of these coefficients indicates the company is less financed by debt.

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