IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

Impact Factor: 5.731

Volume 12, Issue 5, December 2021

Overview of Financial Statements of an Organization

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Abstract: *This paper's primary objective is to determine, forecast, and assess future economic conditions and firm performance. This study's other objective is to assess the financial statement and provide information for financial managers to make informed company decisions. The financial statement employs the necessary tools, strategies, and procedures for company analysis. It is a diagnostic tool for analysing funding, investment, and operational operations, as well as an evaluation tool for management decisions and other business decisions. The analysis of financial accounts, or the study of financial reports, is utilised by managers, shareholders, investors, and any other parties interested in the status of a business. Managers use financial reports to assess the status of the firm and to give shareholders with information regarding the adequacy of the company's investments. For potential investors, the study of the company's financial statements is crucial, since they must first determine the company's true condition before deciding whether to invest.*

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

I. INTRODUCTION

There are a variety of methodologies used by accountants and financial analysts to assess a company's financial health. The goal of the financial analysis is to provide financial managers and analysts with the knowledge they need to make informed company decisions. Every manager must be able to evaluate the financial status and performance of a business in order to make the best and most appropriate decisions for the firm. The analysis of financial statements is a process for comparing, judging, or evaluating the position of specific elements of the balance sheet, upon which significant choices are made. Therefore, financial analysis is the examination of the enterprise's past, present, and future balance sheets. When compared to the values of other balance sheet positions, individual balance sheet position values acquire greater analytical significance. Financial analysis is the study of the financial statements of a company by studying the reports. Report analysis is a technique that facilitates the calculation and interpretation of reports used by investors, creditors, business leaders, and others.

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 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.

"ABC" COMPANY		
	2016	**2015**
Net Sales	**233,715**	**182,795**
Cost of Sales	140,089	112,258
Gross Margin	**93,626**	**70,537**
Operating expenses:		
Research and development	8,067	6,041
Selling, general and administrative	14,329	11,993
Operating income	**71,230**	**52,503**
Other income/(expense) net	1,285	980
Income before provision for income taxes	72,515	53,483
Provision for income taxes	19,121	13,973
Net income	**53,394**	**39,510**

Example of Income & Expenditure statement

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).

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"ABC" COMPANY		
Years	**2016**	**2015**
Assets		
Current assets:		
Cash and cash equivalents	21,120	13,844
Short-term marketable securities	20,481	11,233
Accounts receivable	16,849	17,460
Inventories	2,349	2,111
Deferred tax assets	5,546	4,318
Vender non-trade receivable	13,494	9,759
Other current assets	9,539	9,806
Total current assets	**89,378**	**68,531**
Long-term marketable securities	164,065	130,162
Property, plant and equipment, net	22,471	20,624
Goodwill	5,116	4,616
Acquired intangible assets, net	3,839	4,142
Other assets	5,556	3,764
Total Assets	**290,479**	**231,839**
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payanble	35,490	30,196
Accrued expenses	25,181	18,453
Deferred revenue	8,940	8,491
Commercial paper	8,499	6,308
Current portion of long-term debt	2,500	0
Total current liabilities	**80,610**	**63,448**
Deferred revenue, non current	3,624	3,031
Long-term debt	53,463	28,987
Other non-current liabilities	33,427	24,826
Total liabilities	**171,124**	**120,292**
Shareholders' equity		
Comon stock	27,416	23,313
Retained earnings	92,284	87,152
Accumulated other comprehensive income	(345)	1,082
Total shareholders' equity	**119,355**	**111,547**
Total liabilities and shareholders' equity	**290,479**	**231,839**

Example of Balance sheet

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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