

# Financial concepts Evaluations.docx

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Financial Concepts Evaluation

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### Financial Concepts Evaluation

The financial statement is a crucial concept that dominates the business world. Financial statements consist of written records or documents that entail certain business activities and an organization's financial performance. Every financial statement is subjected to auditing by specific relevant authorities such as accountants, firms, and government agencies. Financial statements are audited to ensure that the companies are in line with taxation policies and also to determine whether the organization attains its investment purposes (Bhaskar, Schroeder & Shepardson, 2019). Some of the financial statements include a balance sheet, cash flow statement, and income statement, among others. Various businesses depend on these financial statements in their decision-making processes. Therefore, businesses should have accurate financial statements to ensure that they make sound decisions. The paper will evaluate the level of comfort with three important financial statements, illustrate the foundation principles of all income and expense report entries provided, define the purpose of balance sheet entries, identify the principles and steps needed to discuss a pro forma balance sheet, define the role of the statement of cash flows entries, and also identify the principles and steps needed to discuss a pro forma statement of cash flows with a potential investor.

Based on the readings, I'm very comfortable with analyzing income and expense reports, the balance sheet, and the statement of cash flow. To begin with the income and expense report, this statement is important because it enables the company to determine its net income over a given period. This statement reveals both income and expense breakdown, thus giving the business an opportunity of comparing the budget spending and the actual spending. Therefore, companies use this statement to assess the cash that is flowing into and outside the business.

Secondly, I'm more comfortable with analyzing <sup>1</sup> the balance sheet. The balance sheet is an important statement that reports a company's liabilities, assets, and shareholders' equity at a certain time (Campiglio, Godin & Kemp-Benedict, 2017). This statement is also important because it describes things that are owned by a company and those that a company owes. Companies also utilize more than one financial statement to assess their financial health. For instance, the balance sheet can be used alongside the <sup>6</sup> income statement and statement of cash flows when calculating the financial ratios of the business. I'm also comfortable with analyzing <sup>7</sup> the statement of cash flow. Generally, the cash flow statement analyzes the cash and other cash equivalents that enter and those that exit the company. Through this statement, a company is able to determine whether its cash management strategies are on point. Therefore, a company should properly manage its cash flow to ensure that it uses generated income to pay its debt obligations without failure.

Income and expense report entries entail several foundation principles. One of <sup>1</sup> the foundation principles of all income and expense report entries, as displayed in the simulation, is based on the historical cost aspect. This principle indicates that this statement should be based on acquisition cost (Vonder Haar, 2017). Most companies report entries such as income, net income, and expenses based on the fair market of assets and liabilities. Therefore, the use of acquisition costs can lead to a more appropriate statement. Another foundation principle is based on revenue recognition. Through this principle, revenue entries in this statement should only account for realized revenue rather than when cash has been received. <sup>1</sup> The knowledge that was needed to discuss a pro forma income and expense statement with a potential investor is the ability to prepare the projections of both income and statement. Therefore, an investor can determine whether the business will be fruitful or encounter losses.

After analyzing the balance sheet as part of the simulation, it is clear that balance sheet entries serve specific purposes. The main balance sheet entries include assets, liabilities, and shareholders' equity. All of these entries play a crucial role in assessing a company's financial health. These entries reveal the liquidity ratio of a business. Liquidity ratio aids in determining the ability of a company to pay its current debt obligations when it is terminating its operations.

A pro forma balance sheet is a financial statement that tabulates future projections critical in managing business assets currently for future benefits (Rosenthal, 2017). This financial statement applies the principle that past occurrences in the business might occur again in the future. These expectations are generally used to project the outcome in the corporate enterprise (Tuovila, 2021). Investors demand to know the business strategy of the business and the projected outcome to determine the viability of the investment they are about to take. Steps needed to discuss the pro forma balance sheet include availing the business's financial position, current and long-term assets, and accounts receivables. Next, the debts associated with the business are availed and evaluated to determine the business's financial position. The business strategy, goals, and expectations are discussed, and the investors weigh whether the business is worth investing in.

Cash flow entries are financial statements that summarize the total inflow and outflow of cash and cash equivalents (Murphy, 2021). Through the cash flow statement, the organization can determine the amount of liquid assets it should retain to meet its daily financial obligations and fund its daily operating costs. Statement of cash flow entries plays several roles, including; First, it gives critical information to the investors and the shareholders of the business, which enables them to understand the business's financial position. This is achieved through giving detailed information on the inflow and outflow of the business, which indicates the performance

of the business through indicating the source of the money and the expenses the money has been used to meet.

Secondly, the statement plays the role of giving creditors information regarding the performance of the business, enabling them to decide on the liquidity of the business and the ability of the business to fund its operations and settle its debts. Overall, the statement is used to gauge how well the business is performing or running its operations.

<sup>1</sup> A Pro forma cash flow statement is a financial statement indicating the anticipated amount of cash inflow and outflow anticipated in one or more of the coming periods. This type of financial statement is usually prepared on certain occasions, like when demanded by the lender or investors. The statement is prepared by organizations anticipating future shortages in cash and thus facilitating obtaining debt and equity to deal with the expected shortfall (Bragaa & Bragga, 2021). The principle applied here is that of utmost faith where the organization is expected to reveal truthful information regarding the business's financial position. The steps involved in discussing the pro forma balance sheet involve analyzing the business's financial statement to indicate the business's financial position. Next, the business will present the information to the debtors or investors to decide whether to fund the shortage or not.

In summary, a financial statement is a crucial tool that enables companies to determine their financial status. Some of these <sup>1</sup> financial statements include the income statement, income, and expense report, and statement of cash flows. All of these statements serve a unique purpose in business. Companies should also ensure that they observe foundation principles when making entries in respective financial statements. Therefore, financial statements are fundamental records that should be given more emphasis.

## 2 References

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